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1996 EDITION

AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Tax Practice Guides and Checklists

AICPA Tax Division

Tax Practice Guides and Checklists
1996 EDITION

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Tax Practice Guides and Checklists

AICPA Tax Division

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WARNING!

This package of practice guides was completed in the fall of 1996. It does not necessarily reflect subsequent legislative, administrative or tax form changes. You may need to revise these guides accordingly.

1996 Tax Practice Guides and Checklists

Diskette Ordering Instructions

The *1996 Tax Practice Guides and Checklists* are available on 3.5" diskette for **\$10 payable by check** (sorry, we cannot accept credit card orders). The disks are formatted in WordPerfect 6.1 only. The checklists and practice guides are heavily font encoded and do not convert well using other word processing programs. The AICPA takes no responsibility for failed disk conversions. Files with .wbl extensions (auto lease tables and 704(b) worksheets) are formatted in Quattro Pro 5.0. No downloading is necessary as these are only data files.

Please send a **self-addressed MAILING LABEL** with your **check made payable to the AICPA** to:

Diskette Order
American Institute of CPAs
1455 Pennsylvania Avenue, NW
Suite 400
Washington, DC 20004

Do not send orders to the AICPA's New Jersey office as that will only delay your order further. Please save this sheet for future reference. If you have any questions, please call Rachel Moxley at (202) 434-9270.

PREFACE

Enclosed are the *1996 Tax Practice Guides and Checklists* prepared by the Tax Practice Guides Committee of the AICPA Tax Division. If you are a Tax Section member, this package was sent to you as part of your basic membership benefit package.

If you are not a member of the Section, you may wish to join in order to expedite receipt of these guides and checklists and to take advantage of the many benefits of Section membership. The price of the guides and checklists to non-members is \$81 (\$89 for non-AICPA members). For just \$95 (\$119 with *The Tax Adviser* magazine), you can receive supplemental practice guides, the quarterly *Tax Division Newsletter* and other publications, as well as additional membership benefits. Please contact Rachel Moxley at (202) 434-9270 if you would like information on membership.

The Committee hopes these practice guides and checklists will be helpful to you and solicits your comments for their improvement. Please send comments and suggestions to James Clark using the following address:

American Institute of CPAs
Tax Division
1211 Avenue of the Americas
New York, NY 10109-0004

Attn: James S. Clark, Jr.

A blank, preaddressed comment sheet with return postage is included for your use. To mail, fold the sheet with the address showing on the back of the form, tape and place in mail.

NOTICE TO READERS

Tax practice guides are designed as educational and reference material for the members of the Tax Section and others interested in the subject. They do not establish standards or preferred practices.

Although much thought and effort have gone into the development of these guides, they are subject to change. Many of the regulations related to current and prior tax acts have not been issued. These checklists need to be revised as new developments occur.

Accordingly, these practice guides are issued as drafts only, and you retain responsibility for their final content. Please review them carefully and make any changes necessary for your particular use.

The Oil and Gas Practice Guide and State Tax Nexus Practice Guide and Checklist are new additions to the *Tax Practice Guides and Checklists*. Also note that Internet WEB sites have been added, where available, to the State Revenue Department Listing. Additionally, we have begun to post select practice guides on the AICPA WEB site (www.aicpa.org).

Members of the 1995-1996 AICPA Tax Practice Guides Committee prepared these practice guides. The members of that committee are listed below:

Terri L. Husberg, <i>Chair</i>	Robert F. Kane
Timothy J. Bartz	Barbara A. Ley
Julian D. Berlin	T. Charles Parr III
Rick Betts	Lorraine A. Travers
Robert A. Docili	B. Quinn Waters
Craig A. Fisher	Ralph C. Youngberg

Robert L. Holman, Tax Executive Committee Liaison
James S. Clark, Jr., Manager, AICPA Tax Division Staff

The Tax Division and aforementioned committee members wish to express their appreciation to the AICPA State and Local Taxation Committee for their preparation of the State Tax Nexus Practice Guide and Checklist, as well as to the following technical reviewers for their outstanding assistance:

William B. Blaylock	James B. McEvoy
Chris D. Breeden	Donald S. Meidinger
Gary A. Fox	Ann B. Moody
Lawrence D. Friedman	Oklahoma Society of CPAs
Martin E. Greif	Tax Committee
Michael D. Koppel	Noni S. Patchett
Roger W. Lusby III	Jodi Pierce

1996 AICPA TAX DIVISION PRACTICE GUIDES AND CHECKLISTS USER'S RESPONSE SHEET

1) How do you use the tax return checklists and practice guides? Check the appropriate responses.

	<u>As Is</u>	<u>Modified</u>	<u>Do Not Use</u>
Checklists:			
Estate (706)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gift (709)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual (1040):			
Expanded Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Short Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mini Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Estate and Trust (1041):			
Expanded Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Short Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mini Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Partnership (1065):			
Expanded Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Short Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mini Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C Corporation (1120):			
Expanded Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Short Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mini Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
S Corporation (1120S):			
Expanded Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Short Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mini Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tax Exempt Organization: (990)			
Expanded Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mini Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Exempt Organization Business Income Tax (990-T)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employee Benefit Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Passive Activity Checklist	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
State Tax Nexus Practice Guide/Checklist	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Section 704(b) Practice Guide	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Oil and Gas Practice Guide	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Vehicle Guides	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Engagement Letters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transmittal Letters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Organizers:			
Individual (1040)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporation (1120 and 1120S):	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporation - One Page Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
S Corporation - One Page Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fiduciary (1041)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Partnership (1065)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Partnership - One Page Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tax Exempt Organization (990)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tax Exempt Organization - Short Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Estate Tax (706)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gift Tax (709)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Qualified Retirement Plan (5500)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2) Please use the space below to comment on the 1996 Tax Practice Guides and Checklists and how you may have modified them, and to offer suggestions for future guides.

3) Please attach tax checklists and practice guides developed by your firm to assist the Tax Division in preparing future guides for the membership.

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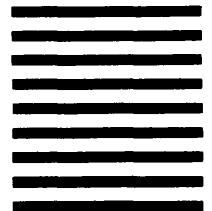
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**1996 TAX PRACTICE GUIDES AND CHECKLISTS
SECTION GUIDE**

- I. TAX ORGANIZERS**
- II. PRACTICE MANAGEMENT FORMS**
- III. TAX FORM PREPARATION GUIDES**
- IV. U.S. ESTATE TAX RETURN (706)—Expanded Version**
- V. U.S. GIFT TAX RETURN (709)**
- VI. TAX EXEMPT ORGANIZATION TAX RETURN (990)—One Page and Expanded Versions**
- VII. EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST (990-T)**
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- XIV. OTHER PRACTICE GUIDES**

TAX RETURN ORGANIZERS

These tax organizers have been designed to assist in compiling the information needed to prepare the respective returns. The following pages contain many of the common income items, expenses, deductions and credits, as well as questions that determine the proper handling of these items.

The organizer can be completed by the client or staff that is working on accounting or audit areas.

ESTATE TAX RETURN ORGANIZER
FORM 706

Decedent's Name _____

Decedent's Social Security Number _____

Date of Death _____

Decedent's Domicile _____

Date Domicile Established _____

Fiduciary Name _____

Fiduciary Address _____

Fiduciary Social Security/Federal ID Number _____

This organizer is designed to assist you, the fiduciary, in gathering the information required for preparation of the appropriate estate and inheritance tax returns. Please complete the organizer and answer all questions. Should you have questions regarding any items, please call.

ESTATE TAX RETURN ORGANIZER (706)

DONE N/A

100) GENERAL INFORMATION

101) Provide a certified copy of:

- will
- death certificate
- letters testamentary or letters of administration

102) Provide a copy of any trust of which the decedent was a grantor, trustee, or in which decedent held any interest or power.

103) Provide beneficiary information below:

FULL NAME	ADDRESS CITY/STATE/ZIP	RELATIONSHIP TO DECEDENT	SOCIAL SECURITY #	BIRTH DATE

104) If the decedent or spouse has filed any federal gift tax returns, provide copies.

105) If the decedent made any gifts valued at \$10,000 or more during the calendar year of his/her death, provide a schedule of the gifts, date of gift, donees, and donees' addresses.

106) Provide a listing of the decedent's estate including all property owned or co-owned by the decedent.

107) If the decedent had access to a safety deposit box, provide the following:

- Location
- Joint depository, if any, and relationship to the decedent.
- Inventory of contents

108) If the decedent's spouse predeceased the decedent, provide a copy of the spouse's Form 706, state inheritance tax returns and any Forms 1041 filed on behalf of that estate.

109) If the decedent was divorced, provide a copy of any divorce decree and/or property settlement.

110) Provide a copy of federal and state income tax returns for the prior three years.


200) REAL ESTATE

201) Provide copies of the most recent appraisal of real estate owned by the decedent.

ESTATE TAX RETURN ORGANIZER (706)

	<u>DONE</u>	<u>N/A</u>
202) If appraisals have not been prepared, provide a schedule of all real estate owned or under contract to purchase with the following information: <ul style="list-style-type: none">• legal description and or street address, if applicable• assessed value for property tax purposes	<u> </u>	<u> </u>
300) STOCKS, BONDS, AND MUTUAL FUNDS		
301) Provide copies of all brokerage and mutual fund statements for the current year prior to the date of death and since the date of death.	<u> </u>	<u> </u>
302) Provide a list and copies of all stock and bond certificates held by the decedent which were not listed on the brokerage statements.	<u> </u>	<u> </u>
303) If the decedent owned stock in a closely held corporation, provide the following: <ul style="list-style-type: none">• copy of stock certificates• copy of buy-sell agreements• copy of tax returns and/or financial statements for the prior five years• copy of appraisal, if any	<u> </u>	<u> </u>
304) Provide documentation of worthless securities.	<u> </u>	<u> </u>
400) MORTGAGES, NOTES AND CASH		
401) Provide copies of the following statements for all accounts for the period beginning two months prior to death through the present: <ul style="list-style-type: none">• checking accounts• savings accounts• certificates of deposits• money market accounts	<u> </u>	<u> </u>
402) Provide a copy of the current check registers for the above accounts.	<u> </u>	<u> </u>
403) Provide copies of all notes and mortgages owed to the decedent.	<u> </u>	<u> </u>
404) Provide the amount of cash held by the decedent at death. \$ <u> </u>		
500) LIFE INSURANCE		
501) Provide a list of life insurance policies indicating: <ul style="list-style-type: none">• insured• amount• ownership• beneficiaries• company• policy number	<u> </u>	<u> </u>
502) Provide Form(s) 712 issued by the life insurance companies.	<u> </u>	<u> </u>
503) If the decedent was not the owner of the policy provide date and circumstances of acquisition by the owner.	<u> </u>	<u> </u>

ESTATE TAX RETURN ORGANIZER (706)

		<u>DONE</u>	<u>N/A</u>
600)	JOINTLY OWNED PROPERTY		
601)	For all assets owned jointly by the decedent and others, indicate the portion belonging to the decedent.	_____	_____ 
602)	Provide name(s) and address(es) of co-owners other than spouse.	_____	_____
700)	MISCELLANEOUS PROPERTY		
701)	Provide copies of any available appraisals of: <ul style="list-style-type: none">• art• antiques• jewelry• other collectibles• other property	_____	_____
702)	If the decedent was a partner in a partnership or other unincorporated business, provide a copy of the following: <ul style="list-style-type: none">• partnership agreement• tax returns and/or financial statements for the prior five years• buy-sell agreements• appraisal, if any	_____ _____ _____ _____	_____ _____ _____ _____
703)	Provide a list of any refunds or reimbursements received by the estate.	_____	_____
704)	Provide a list of household furnishings and personal assets owned by the decedent and value of each.	_____	_____
705)	Provide a list of automobiles owned by the decedent with make, model, year, odometer reading, general condition and Blue Book values.	_____	_____
706)	Provide Forms 712 for all life insurance policies owned by the decedent on the life of another.	_____	_____
707)	Provide a description and fair market value of all other assets not noted above.	_____	_____
800)	ANNUITIES AND RETIREMENT BENEFITS		
801)	Provide copies of the brokerage, mutual funds, or bank statements for all IRAs, 401(k)s and other retirement plans.	_____	_____
802)	Provide copies of commercial annuity contracts and last statement indicating balance of account.	_____	_____
900)	ADMINISTRATION EXPENSES	_____	_____
901)	Provide a copy of the funeral related expenses including the following: <ul style="list-style-type: none">• funeral arrangements• markers• reception costs	_____ _____ _____	_____ _____ _____

ESTATE TAX RETURN ORGANIZER (706)

	<u>DONE</u>	<u>N/A</u>
<ul style="list-style-type: none">• flowers• thank you notes and postage	<u> </u>	<u> </u>
902) Provide a schedule of other administration expenses which were not paid through the estate checking account or have yet to be paid. The schedule should include the following:		
<ul style="list-style-type: none">• legal fees• accounting fees• commissions paid• maintenance of estate property• appraisal fees• other	<u> </u>	<u> </u>
1000) DEBTS, MORTGAGES, AND LIENS OF DECEDENT		
1001) Provide copies of all notes, mortgages etc., owed by the decedent and a schedule of balances at date of death.	<u> </u>	<u> </u>
1002) Schedule all other debts owed by the decedent including:		
<ul style="list-style-type: none">• to whom owed• amount of debt• interest rate• due date• payment amounts	<u> </u>	<u> </u>
1100) LOSSES DURING ADMINISTRATION		
1101) Schedule any losses incurred during the administration of the estate.	<u> </u>	<u> </u>
1200) CREDIT FOR PRIOR TRANSFERS		
1201) If the decedent received property during the prior ten years from the estate of another, provide a copy of the prior decedents' estate tax returns.	<u> </u>	<u> </u>

GIFT TAX RETURN ORGANIZER

FORM 709

Donor's Name _____ SS# _____

Spouse's Name _____ SS# _____

Address _____

City, Town or Post Office _____ County _____ State _____ Zip Code _____

Telephone Number

Home (____) _____

Telephone Number

Office (____) _____

Citizenship _____

- | | YES | NO |
|---|-------|-------|
| 1. Did donor die during the year? If "yes," provide the date of death.
_____ | _____ | _____ |
| 2. Have gift tax returns been filed prior years? If "yes," provide copies. | _____ | _____ |
| 3. Have previously filed gift tax returns have examined? If so, provide copies of examination reports. | _____ | _____ |
| 4. Have the gifts (including generation-skipping transfers) to third parties during the calendar year been considered as made one-half by each spouse? If "yes,":
<div style="margin-left: 20px;">Were taxpayers married during entire year? _____</div> <div style="margin-left: 20px;">Did taxpayers get married during the year? If "yes," when? _____</div> <div style="margin-left: 20px;">Did taxpayers get divorced during the year? If "yes," when? _____</div> <div style="margin-left: 20px;">Will each spouse file a gift tax return? _____</div> | _____ | _____ |
| 5. Has the donor's spouse made gifts? If so, complete a separate Form 709 organizer. | _____ | _____ |

DONEE'S NAME AND ADDRESS	RELATIONSHIP TO DONOR	DESCRIPTION OF GIFT	IF GIFT WAS A SECURITY, CUSIP #	YOUR ADJUSTED BASIS IN THE GIFT	DATE OF GIFT	VALUE AT DATE OF GIFT

6. Were any of the above gifts made by means of a trust? If "yes," provide a copy of the trust instrument and the trust's identification number. _____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

Organization Name _____ Tax Period _____

Address _____ Federal ID# _____


_____ State ID# _____

Exempt Under § 501(c) _____

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and statement of receipts and expenses as of year end. Section 501(c)(3) and (c)(4) organizations and § 4947(a)(1) trusts need to categorize expenses as to program services, management/general, and fund raising. In addition, the following information will be needed:

	<u>YES</u>	<u>NO</u>
1. Provide information about any activities new to the organization which require IRS notification.	_____	_____
2. Provide copies of any changes to the governing documents or information related to a change in organization structure.	_____	_____
3. Provide a list of names of any related organizations and indicate whether they are exempt.	_____	_____
4. List the states with which a copy of this return is to be filed.	_____	_____
5. Provide a list of employee benefit plans for which the organization requires assistance in filing 5500 series forms.	_____	_____
6. Provide copies of any change notices received from any taxing authority.	_____	_____
7. Provide a schedule of "in-kind" contributions and indicate whether they are included in income.	_____	_____
8. Do you provide written acknowledgement to donors of individual contributions of \$250 or more?	_____	_____
9. For each area of program service revenue, provide an explanation of how the activity contributes to the organization's exempt purpose.	_____	_____
10. Attach information related to the income and expenses from unrelated business income.	_____	_____
11. Provide copies of all K-1s received.	_____	_____
12. Provide a schedule of donors who gave property with a value of at least \$5,000.	_____	_____
13. Provide a schedule of the three largest fund raising events, describe the event and indicate the amount raised. (Attach a copy of fundraising materials.)	_____	_____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

		<u>YES</u>	<u>NO</u>
14.	Prepare a statement describing the services provided under the four largest program services offered by the organization.	_____	_____
15.	Provide a schedule of wages/compensation, deferred compensation and expense account payments for all officers, directors, trustees, key employees and advisors.	_____	_____ 
16.	Provide a list of names and addresses of employees (other than officers) who received compensation in excess of \$50,000.	_____	_____
17.	Provide a list of names and addresses of individuals/entities providing professional services to the organization at fees in excess of \$50,000.	_____	_____
18.	Provide information about any legislative or lobbying activity during the year.	_____	_____
19.	Provide details regarding all transactions with a trustee, director, principal officer, or creator of the organization.	_____	_____
20.	Section 501(c)(7) organizations—provide the amount of initiation fees and capital contributions.	_____	_____
21.	Section 501(c)(12) organizations—attach a detailed computation of the 85% qualification test.	_____	_____
22.	Public interest law firms—attach a list of cases litigated during the year and describe the benefit to the general public.	_____	_____
23.	How many additional copies of the return are needed? _____		
24.	Additional information: _____ _____ _____ _____		

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

ORGANIZATION NAME _____

ADDRESS _____

TAX YEAR ENDING _____

FEDERAL ID# _____

STATE ID# _____

REGISTRATION # _____

EXEMPT UNDER § 501(C) _____

This organizer is designed to assist you in gathering the information needed to prepare the organization's current year tax returns. Complete the organizer and answer all questions. Should you have questions regarding any items, please call.

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

Provide a copy of the organization's general ledger, trial balance, depreciation schedules, balance sheet, and statement of revenues and expenses as of year-end. Section 501(c)(3) and (c)(4) organizations and § 4947(a)(1) trusts need to categorize expenses as to program services, management/general and fund raising. In addition, the following information will be needed:

YES NO N/A

100) GENERAL INFORMATION

101) If this is the first year we will prepare the tax return(s), provide the following from your file or your prior accountant: _____

- Tax returns for the prior three years _____
- Depreciation schedules _____
- IRS notification of exempt status _____
- Application for Exemption, Form 1023 or 1024 _____
- IRS determination letter for any qualified retirement plans _____

102) Is the organization's address different from last year? _____

103) List the names and telephone numbers of the organization's advisors.

	Name	Telephone
Attorney		
Banker		
Insurance Agent		
Broker		

104) List the states with which a copy of this return will be filed. _____

105) Did the organization engage in any activity not previously reported to the Internal Revenue Service? If "yes," provide a detailed description of each activity. _____

106) Were any changes made in the organizing or governing documents? If "yes," attach a copy of the changes and indicate if they have been reported to the IRS. _____

107) Did the organization undergo a liquidation, dissolution, termination, or substantial contraction during the year? If "yes," provide details. _____

108) Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other organization? If "yes," enter the name of the organization and indicate if it is exempt or non-exempt. _____

109) Does the organization provide fringe benefits to employees such as health insurance, group term life insurance, education assistance, expense allowances, and personal use of organization owned vehicles? If "yes," list the benefits provided. _____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
110) Did the organization include taxable fringe benefits as compensation in employee W-2 forms and, if applicable, subject such amounts to payroll taxes?	_____	_____	_____
111) Does the organization sponsor any of the following employee benefit plans?	_____	_____	
.1) Qualified retirement plan(s)?			
If "yes," are we to prepare 5500 series form(s)?	_____	_____	
Number of plans: _____	_____	_____	
.2) SEP plan?	_____	_____	
If "yes," are we to calculate contribution?	_____	_____	
.3) Cafeteria plan?	_____	_____	
If "yes," are we to prepare 5500 series form?	_____	_____	
.4) Non-qualified retirement plan(s)?	_____	_____	
Number of plans: _____			
.5) Other employee benefit plans not described above?	_____	_____	
If "yes," please describe: _____			
112) Has the organization been notified of any changes to previous returns by any taxing authority? If "yes," provide copies of all correspondence.	_____	_____	
113) Has the organization posted the results of tax changes in its general ledger?	_____	_____	_____
114) Did the organization establish any new general ledger accounts during the tax year? If "yes," provide a list with a brief explanation of each account.	_____	_____	
115) Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value? If "yes," provide a detailed list indicating the value of each item and whether it is included in revenue and expense.	_____	_____	
116) Did the organization solicit any contributions or gifts that were not tax deductible? If "yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	_____	_____	
117) For each of the four largest programs services offered by the organization, prepare a statement which fully describes the services provided, the number of persons benefitted and other achievements of the program. Section 501(c)(3) and (4) organizations must also identify the amount of any grants paid to others as part of the program.	_____		_____
118) Complete the following schedule for all officers, directors, trustees and key employees of the organization as of the last day of the tax year.	_____		_____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

Name & Address	Title and average hours per week devoted to position	Compensation	Contribution to employee benefit plans	Expense Account and other allowances

- | | <u>YES</u> | <u>NO</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 119) Did you incur any expenses to influence legislation (lobbying)? | ___ | ___ | |
| .1) If yes, provide a schedule of lobbying expenses and indicate to which accounts those expenses were posted. | ___ | ___ | ___ |
| .2) Has the organization elected to pay the proxy tax? | ___ | ___ | |
| 120) Section 501(c)(3) organizations. Did the organization file Form 5678, Election/Revocation of Election by an Eligible § 501(c)(3) Organization to Influence Legislation? | ___ | ___ | ___ |
| 121) Section 501(c)(7) organizations (club): | | | ___ |
| .1) Did the organization receive initiation fees or capital contributions? If "yes," indicate the amount. \$ _____ | ___ | ___ | |
| .2) Did the organization receive gross receipts for public use of club facilities? If "yes," indicate the amount. \$ _____ | ___ | ___ | |
| .3) Does the club's governing instrument or any written policy statement provide for discrimination against any person because of race, color, or religion? | ___ | ___ | |
| 122) Section 501(c)(12) organizations. Attach a detailed computation of the 85% qualification test, including a detailed listing of gross income received from: (1) members or shareholders and (2) other sources. | ___ | | ___ |
| 123) Public interest law firms. Attach information describing each case litigated during the year or still in litigation and describe how the litigation will benefit the general public. | ___ | | ___ |

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

YES NO N/A

124) Does the organization have a taxable subsidiary? If "yes," complete the following:

Name, address, and TIN of corporation or partnership	Percentage of ownership interest	Nature of Business Activities	Total income	End-of-year assets
1)				
2)				
3)				
4)				
5)				

125) Did the organization have unrelated business taxable income (UBTI) as a result of the operation of a trade or business not related to the organization's exempt function?

Note: UBTI is one of the most critical issues within tax exempt organization reporting. Provide complete information related to your revenue sources to allow proper determination of the income classification.

126) Provide copies of all Schedules K-1 received.

127) Provide a detailed list of the expenses directly related to the UBTI activity.

128) Provide a detailed list and explanation of the allocation method of general expenses allocated to UBTI.

129) Have cash receipts for UBI activities over \$10,000 been reported on Form 8300?

130) How many additional copies of the return are needed? _____

200) SECTIONS 501(c)(3), 501(e), (f) & (k) ORGANIZATIONS AND § 4947(a)(1) TRUSTS

201) Did the organization pay compensation in excess of \$50,000 to any employee other than officers, directors and/or trustees? If "yes," complete the following schedule for the five highest paid employees.

Name and address of employees paid more than \$50,000	Title and average hours per week devoted to position	Compensation	Contributions to employee benefit plans	Expense account and other allowances
1)				
2)				
3)				
4)				
5)				
Total number of other employees paid over \$50,000 _____				

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

YES NO N/A

202) Did the organization's board approve all compensation, including fringe benefits, travel and loans to all officers, directors and trustees? If so, provide a copy of the minutes where this action was taken.

203) Did the organization pay any individuals or companies in excess of \$50,000 for professional services? If "yes," complete the following schedule for the five highest paid service providers.

Name and address of persons paid more than \$50,000	Type of service	Compensation
Total number of others receiving over \$50,000 for professional services _____		

204) Provide the actual cash receipts from public support. \$ _____

205) Did the organization attempt to influence public opinion on any legislative matter or referendum? If "yes," provide a detailed description of these activities and the corresponding expenses paid or incurred.

206) During the tax year, has the organization, either directly or indirectly, engaged in any of the following acts with a trustee, director, principal officer or creator of the organization or any taxable organization or corporation with which such person is affiliated as an officer, director, trustee, majority owner, or principal beneficiary? If "yes," provide an explanation of the transaction(s):

- .1) Sale, exchange or lease of property? _____
- .2) Lending of money or other extension of credit? _____
- .3) Furnishing of goods, services, or facilities? _____
- .4) Payment of compensation or payment or reimbursement of expenses if more than \$1,000. _____
- .5) Transfer any part of the organization's income or assets? _____
If "yes," describe: _____

207) Does the organization make grants for scholarships, fellowships, student loans, etc.? If "yes," provide a statement explaining how the organization determines that those receiving disbursements from the organization in furtherance of its charitable programs qualify to receive payments.

208) Did the organization directly or indirectly engage in any of the following with any other organization described in § 501(c) (other than § 501(c)(3) organizations) or with any organizations described in § 527 (relating to political organizations):

- .1) Transfers from the organization to a noncharitable exempt organization of:
 - (a) Cash? _____
 - (b) Other assets? _____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

YES NO N/A

.2) Other transactions:

- (a) Sales of assets to a noncharitable exempt organization?
- (b) Purchases of assets from a noncharitable exempt organization?
- (c) Rental of facilities or equipment?
- (d) Reimbursement arrangements?
- (e) Loans or loan guarantees?
- (f) Performance of services or membership or fundraising solicitations?

.3) Sharing of facilities, equipment, mailing lists or other assets, or paid employees?

.4) If the answer to any of the above is "yes," complete the following schedule.

Amount involved	Name of noncharitable exempt organization	Description of transfers, transactions, and sharing arrangements

- 209) Is the organization directly or indirectly affiliated with, or related to, one or more tax-exempt organizations described in § 501(c) (other than § 501(c)(3)) or with any organizations described in § 527 (relating to political organizations)? If "yes," complete the following schedule.

Name of organization	Type of organization	Description of relationship

300) PRIVATE SCHOOLS

- 301) Does the organization have a racially nondiscriminatory policy toward students by statement in its charter, bylaws, other governing instrument, or in a resolution of its governing body?

- 302) Does the organization include a statement of its racially nondiscriminatory policy toward students in all its brochures, catalogues, and other written communications with the public dealing with student admissions, programs, and scholarships?

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

YES NO N/A

303) Has the organization publicized its racially nondiscriminatory policy through newspaper or broadcast media during the period of solicitation for students, or during the registration period if it has no solicitation program, in a way that makes the policy known to all parts of the general community served? If "yes," provide a description; if "no," provide an explanation.

304) Does the organization maintain the following (provide an explanation of any "no" or "n/a" answers):

.1) Records indicating the racial composition of the student body, faculty, and administrative staff?

.2) Records documenting that scholarships and other financial assistance are awarded on a racially nondiscriminatory basis?

.3) Copies of all catalogues, brochures, announcements, and other written communications to the public dealing with student admissions, programs, and scholarships?

.4) Copies of all material used by the organization or on its behalf to solicit contributions?

305) Did the organization discriminate by race in any way with respect to (provide an explanation for any "yes" answers):

.1) Students' rights or privileges?

.2) Admissions policies?

.3) Employment of faculty or administrative staff?

.4) Scholarships or other financial assistance?

.5) Educational policies?

.6) Use of facilities?

.7) Athletic programs?

.8) Other extracurricular activities?

306) Did the organization receive any financial aid or assistance from a governmental agency? If "yes," provide a schedule and indicate if the organization's right to such aid has ever been revoked or suspended.

307) Does the organization certify that it has complied with the applicable requirements of §§ 4.01 through 4.05 of Rev. Proc. 75-50, covering racial nondiscrimination? If "no," provide an explanation.

400) REVENUE AND SUPPORT

401) Provide a schedule listing contributors who, during the tax year, gave (directly or indirectly) money, securities or property with a value totaling at least \$5,000 (exclude individual gifts of less than \$1,000). Provide the donor's name, address, total amount contributed and the date contributed. If the organization is exempt under § 501(c)(7), (8), (10), or (19), substitute \$1,000 for the \$5,000 above and explain the specific purpose and actual use of each gift.

402) Did the organization sell or dispose of any assets (other than inventory) during the tax year? If "yes," provide a schedule listing (sales of publicly traded securities may be aggregated):

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

YES NO N/A

- Description of asset
- Date acquired
- How acquired
- Date sold
- Buyer
- Gross sales price
- Cost, other basis, or if donated, value at time acquired (state which)
- Expense of sale
- Improvements made after acquisition
- Depreciation since acquisition

403) Did the organization sponsor any special fund raising events? If "yes," provide a schedule listing the three largest special events conducted, as measured by gross receipts. Describe each of these events and indicate for each event the gross receipts, the amount of contributions included in gross receipts, the gross revenue (gross receipts less contributions), the direct expenses, and the net income (gross revenue less direct expenses). Furnish the same information in total figures for all other special events held that are not among the three largest. Indicate the type and number of the events not listed individually (for example, three dances and two raffles). (Provide copies of fundraising materials.)

404) Provide a computation of cost of goods sold for the sale of inventory items.

500) EXPENSES

501) For all organizations other than § 501(c)(3) and (4) organizations and § 4947(a)(1) charitable trusts, does the organization desire to allocate expenses under the classifications of expenses related to management/general, program services, and fundraising? If "yes," categorize expenses on the organization's trial balance.

502) Did the organization award any grants or other allocations during the tax year? If "yes," provide a schedule of the following for each class of activity:

- Donee's name and address
- Amount of the grant or allocation
- Relationship of any donee to any person or corporation with an interest in the organization

503) Does the organization provide any of the following benefits to members or dependents (do not include employment-related benefits provided to officers and employees)? If "yes," provide a schedule showing amounts of:

- Death, sickness, hospitalization, or disability benefits
- Unemployment compensation benefits
- Other benefits (describe)

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

YES NO N/A

504) Did the organization make payments to affiliates? If "yes," provide a schedule listing the following:

- Name and address of each affiliate receiving payments
- Amount and purpose of the payments

600) BALANCE SHEET

601) Does the organization have any loans (include receivables from officers, directors, trustees and key employees) at year-end? If "yes," provide a schedule showing the following information:

- Borrower's name (identify officers, directors, trustees or key employees)
- Original amount
- Balance due at year end
- Date of note
- Maturity date
- Repayment terms
- Interest rate
- Security provided by the borrower
- Purpose of the loan
- Description and fair market value of the consideration furnished by the lender (for example, cash - \$1,000; or 100 shares of XYZ, Inc. common stock - \$9,000).

602) Does the organization hold any land, buildings or equipment for investment purposes? If "yes," provide a schedule listing the following: Description, cost or other basis, accumulated depreciation, investment in fixed assets held at year-end. Show the cost or other basis, accumulated depreciation, and book value for each asset.

603) Does the organization hold securities or other investments (other than land, buildings and equipment)? If "yes," provide a schedule describing each of these investments held at year-end, providing the book value for each and indicating whether the investment is listed at cost or end of year market value.

604) Did the organization receive contributions or grants that contributors or grantors have designated as payable for one or more future years? If "yes," provide a schedule describing each contribution or grant and indicate the total amount of each item and the amount applicable to each future period.

605) Does the organization have loans payable at year end? If "yes," provide a schedule showing the following information (identify officers, directors, trustees or key employees):

- The name of lender
- Original amount
- Balance due at year end
- Date of note
- Maturity date
- Repayment terms
- Interest rate

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

- Security provided by the borrower
- Purpose of the loan
- The relationship of the lender to any officer, director, trustee, or key employee of the organization.

COMMENTS OR EXPLANATIONS

INDIVIDUAL TAX ORGANIZER
FORM 1040

Enclosed is an Organizer to assist you in compiling the information necessary to prepare your individual income tax returns.

The Internal Revenue Service matches information returns with amounts reported. A negligence penalty may be assessed where dividends and interest are underreported. Accordingly, all Forms W-2, 1098 and 1099, Schedules K-1 and other information returns reflecting amounts reported to the Internal Revenue Service should be submitted with your Organizer.

For your convenience there is an engagement letter enclosed which explains the services to be performed for you. Please sign the copy and return it in the enclosed envelope. Keep the original for your records.

To continue providing quality services on a timely basis, I urge you to collect your information as soon as possible. If information from "passthrough" entities such as partnerships, trusts and S corporations is the only data you are missing, please send the data you have assembled and forward the missing information as soon as it is available.

I look forward to providing services to you. Should you have questions regarding any items, please call.

INDIVIDUAL TAX ORGANIZER (1040)

If we did not prepare your prior year returns, please provide a copy of federal and state returns for the three previous years. Complete pages 1 through 3 and all applicable sections.

Your Name _____ SS# _____ Occupation _____

Spouse's Name _____ SS# _____ Occupation _____

Home Address _____

City, Town, or Post Office

County

State

Zip Code

School District

Telephone Number

Home (_____) _____

Telephone Number (T)*

Office (_____) _____

Fax (_____) _____

Telephone Number (S)*

Office (_____) _____

Fax (_____) _____

Taxpayer: Date of Birth _____

Blind? - Yes ____ No ____

Spouse: Date of Birth _____

Blind? - Yes ____ No ____

Dependent Children Who Lived With You:

Full Name	Social Security Number	Relationship	Birth date

Other Dependents:

Full Name	Social Security Number	Relationship	Number Months Resided in Your Home	% Support Furnished By You

*T= Taxpayer *S=Spouse

INDIVIDUAL TAX ORGANIZER (1040)

Please answer the following questions and submit details for any question answered "Yes":

	<u>YES</u>	<u>NO</u>
1. Did your marital status change during the year?	_____	_____
2. Will the address on your current returns be different from that shown on your prior year returns? If yes, provide the new address.	_____	_____
3. Were there any changes in dependents from the prior year?	_____	_____
4. Are you entitled to a dependency exemption due to a divorce decree?	_____	_____
5. Did any of your dependents have income of \$650 or more?	_____	_____
6. Did any of your children under age 14 have investment income of over \$1,300? If yes, do you want to include your child's income on your return?	_____	_____
7. Are any dependent children married and filing a joint return with their spouse?	_____	_____
8. Did any dependent child over 19 years of age attend school less than 5 months during the year?	_____	_____
9. Did you receive funds from any legal proceedings during the year?	_____	_____
10. Did you make any gifts during the year directly or in trust exceeding \$10,000 per person?	_____	_____
11. Did you have any interest in, or signature, or other authority over a bank, securities, or other financial account in a foreign country?	_____	_____
12. Were you a resident of, or did you earn income in, more than one state during the year?	_____	_____
13. Do you wish to have \$3 (or \$6 on joint return) of your taxes applied to the Presidential Campaign Fund?	_____	_____
14. Do you wish to contribute to any state fund(s)? If yes, indicate amount(s) and which fund(s): _____ _____	_____	_____
15. Do you want any overpayment of taxes applied to next year's estimated taxes?	_____	_____
16. Do you expect a large fluctuation in your income, deductions or withholding next year?	_____	_____
17. Did you receive a total distribution from an IRA or other qualified plan that was partially or totally rolled over into another IRA or qualified plan within 60 days of the distribution?	_____	_____
18. Did you receive any disability payments this year?	_____	_____
19. Did you receive tip income not reported to your employer?	_____	_____
20. Did you sell and/or purchase a principal residence or other real estate?	_____	_____
21. Did you have any installment sale amounts due from relatives?	_____	_____

INDIVIDUAL TAX ORGANIZER (1040)

	<u>YES</u>	<u>NO</u>
22. Did you receive income from tax-exempt securities?	_____	_____
23. Do you have any worthless securities or any loans that became uncollectible this year?	_____	_____
24. Did you receive unemployment compensation?	_____	_____
25. Did you have any casualty or theft losses during the year?	_____	_____
26. Did you have foreign income or pay any foreign taxes?	_____	_____
27. If there were dues paid to an association, was any portion not deductible due to political lobbying by the association or benefits received?	_____	_____
28. Has the IRS, any state or local taxing agency notified you of changes to a prior year's tax return?	_____	_____
29. Are you aware of any changes to your income, deductions and credits reported on a prior year's returns?	_____	_____
30. Did you purchase gasoline, oil, or special fuels for non-highway vehicles?	_____	_____
31. If you or your spouse have self-employment income, did you pay any health insurance premiums? If yes, were either you or your spouse eligible to participate in an employee's health insurance plan?	_____	_____
32. If you or your spouse have self-employment income, do you want to make a retirement plan contribution?	_____	_____
33. Did you acquire any "qualified small business stock?"	_____	_____
34. Did you pay any household employee wages of \$1,000 or more in 1996? If yes, furnish details. _____ If yes, did you pay total wages of \$1,000 or more in any calendar quarter of 1995 or 1996 to household employees?	_____	_____
35. Did you surrender any U.S. savings bonds?	_____	_____
36. Did you use the proceeds from Series EE U.S. savings bonds purchased after 1989 to pay for higher education expenses?	_____	_____
37. Did you realize a gain on property which was taken from you by destruction, theft, seizure or condemnation?	_____	_____
38. Did you start a business?	_____	_____
39. Did you purchase rental property?	_____	_____
40. Did you acquire interests in partnerships or S corporations?	_____	_____
41. Do you have records to support travel and entertainment expenses? The law requires that adequate records be maintained for travel and entertainment expenses. The documentation should include: amount, time and place, date, business purpose, description of gift(s) (if any), and business relationship of recipient(s).	_____	_____

INDIVIDUAL TAX ORGANIZER (1040)

YES NO

ESTIMATED TAX PAYMENTS MADE ✓

	FEDERAL		STATE (NAME):	
	Date Paid	Amount Paid	Date Paid	Amount Paid
Prior year overpayment applied				
1st Quarter				
2nd Quarter				
3rd Quarter				
4th Quarter				

WAGES, SALARIES, AND OTHER EMPLOYEE COMPENSATION - List and enclose all W-2 Forms.

TS*	Employer	Gross Wages	Fed W/H	FICA W/H	Medicare W/H	State W/H	Local W/H

PENSION AND ANNUITY INCOME - List and enclose all Forms 1099R. ✓

TS*	Name of Payor	Total Received	Taxable Amount	Federal Tax Withheld	State Tax Withheld

*T = Taxpayer S = Spouse

- | | | | |
|----|--|-------|-------|
| 1. | Did you receive a lump sum distribution from your employer? | _____ | _____ |
| 2. | Did you "rollover" a lump sum distribution into another plan or IRA account? | _____ | _____ |
| 3. | Have you elected a lump sum treatment after 1986? | _____ | _____ |
| | Taxpayer | _____ | _____ |
| | Spouse | _____ | _____ |

INDIVIDUAL TAX ORGANIZER (1040)

✓ **SOCIAL SECURITY BENEFITS RECEIVED** - List and enclose all 1099 SSA Forms.

	Gross	Medicare Premiums Deducted	Net Received
Taxpayer	\$	\$	\$
Spouse	\$	\$	\$

INTEREST INCOME - List and enclose all 1099-INT forms and statements of tax exempt interest earned.

[illegible]

*T = Taxpayer S = Spouse J = Joint

Interest Income (Seller Financed Mortgage)

Name of Payor	Social Security Number	Address	Interest Recorded

INDIVIDUAL TAX ORGANIZER (1040)

DIVIDEND INCOME - List and enclose all 1099-DIV Forms and statements of tax exempt dividends earned.

T SJ*	Name of Payor per 1099 or statement	Gross Dividend	Non Taxable	Capital Gain	Federal Tax Withheld	Foreign Tax Withheld

*T = Taxpayer S = Spouse J = Joint

✓ **MISCELLANEOUS INCOME** - List and enclose related 1099(s) or other forms.

Description	Amount
State and local income tax refund(s)	
Alimony received	
Jury fees	
Finder's fees	
Director's fees	
Prizes	
Other miscellaneous income	

INDIVIDUAL TAX ORGANIZER (1040)

INCOME FROM BUSINESS OR PROFESSION

Who owns this business? ☐ Taxpayer ☐ Spouse ☐ Joint

Principal business or profession _____

Business name _____

Business taxpayer identification number _____

Business address _____

Method(s) used to value closing inventory:

___ Cost ___ Lower of cost or market ___ Other (describe) _____ N/A ___

Accounting method:

___ Cash ___ Accrual ___ Other (describe) _____

- | | <u>YES</u> | <u>NO</u> |
|---|------------|-----------|
| 1. Was there any change in determining quantities, costs or valuations between the opening and closing inventory? If "yes," attach explanation. | _____ | _____ |
| 2. Did you deduct expenses for the business use of your home? If "yes," see attached schedule. | _____ | _____ |
| 3. Did you materially participate in the operation of the business during the year? | _____ | _____ |
| 4. Was all of your investment in this activity at risk? | _____ | _____ |
| 5. Were any assets sold during the year? If "yes," list assets sold including date acquired, date sold, sales price, basis and gain or loss. | _____ | _____ |
| 6. Were any assets purchased during the year? If "yes," list assets acquired, including date placed in service and purchase price, including trade-in. Include copies of purchase invoices. | _____ | _____ |
| 7. Was this business still in operation at the end of the year? | _____ | _____ |
| 8. List the states in which business was conducted.

_____ | | |
| 9. Provide copies of certification for members of target groups and associated wages paid after September 30, 1996 qualifying for Work Opportunities Credit. SBJPA 1996. | _____ | _____ |

Attach a schedule of income and expenses of the business or complete the following worksheet. Complete a separate schedule for each business.

INDIVIDUAL TAX ORGANIZER (1040)

Description	Amount
Part I - Income	
Gross receipts or sales	
Returns and allowances	
Other income (List type and amount)	
Part II - Cost of Goods Sold	
Inventory at beginning of year	
Purchases less cost of items withdrawn for personal use	
Cost of labor (Do not include salary paid to yourself)	
Materials and supplies	
Other costs (List type and amount)	
Inventory at end of year	
Part III - Expenses	
Advertising	
Bad debts from sales or services	
Car and truck expenses (Complete Auto Expense Schedule on Page 20)	
Commissions and fees	
Depletion	
Depreciation and section 179 expense deduction (provide depreciation schedules)	
Employee benefit programs (other than Pension and Profit Sharing plans shown below)	
Insurance (other than health)	
Interest:	
a. Mortgage (paid to banks, etc.)	
b. Other	
Legal and professional services	
Office expense	
Pension and profit-sharing plans (employee's portion only)	
Rent or lease:	

INDIVIDUAL TAX ORGANIZER (1040)

a. Vehicles, machinery, and equipment	
b. Other business property	
Repairs and maintenance	
Supplies	
Taxes and licenses (Enclose copies of payroll tax returns)	
Travel, meals, and entertainment:	
a. Travel	
b. Meals and entertainment	
Utilities	
Wages (enclose copies of W-3/W-2 forms).	
Lobbying expenses	
Club dues:	
a. Civic club dues	
b. Social or entertainment club dues	
Other expenses (list type and amount)	

INDIVIDUAL TAX ORGANIZER (1040)

OFFICE IN HOME

To qualify for an office in home deduction, the area must be used exclusively for business purposes on a regular basis in connection with your employer's business and for your employer's convenience. If you are self-employed, it must be your principal place of business or you must be able to show that income is actually produced there. If business use of home relates to daycare, provide total hours of business operation for the year.

Business or activity for which you have an office	Total area of the house (square feet)	Area of business portion (square feet)	Business percentage

I. DEPRECIATION

	Date Placed in Service	Cost/Basis	Method	Life	Prior Depreciation	Current Expense
House						
Land						
Total Purchase Price						
Improvements (Provide details)						

II. EXPENSES TO BE PRORATED:

Mortgage interest	_____
Real estate taxes	_____
Utilities	_____
Property insurance	_____
Other expenses - itemize	_____

III. EXPENSES THAT APPLY DIRECTLY TO HOME OFFICE:

Telephone	_____
Maintenance	_____
Other expenses - itemize	_____

INDIVIDUAL TAX ORGANIZER (1040)

- ✓ **CAPITAL GAINS AND LOSSES** - Enclose all 1099-B and 1099-S Forms. If you wish us to complete the following schedule furnish all your brokerage account statements and transaction slips.

Enter sales reported to you on Forms 1099-B and 1099-S:

Description	Date Acquired	Date Sold	Sales Proceeds	Cost or Basis	Gain (Loss) Long-Term Over 12 mos.	Gain (Loss) Short-Term 12 mos. or Less

Enter the sales **NOT** reported on forms 1099-B and 1099-S:

Description	Date Acquired	Date Sold	Sales Proceeds	Cost or Basis	Gain (Loss) Long-Term Over 12 mos.	Gain (Loss) Short-Term 12 mos. or Less

INDIVIDUAL TAX ORGANIZER (1040)

SALE/PURCHASE OF PERSONAL RESIDENCE

Provide closing statements on purchase and sale of old residence and purchase of new residence. If you have previously sold a residence, provide a copy of the Form 2119 filed with your tax return for the year of the most recent sale.

Date you moved into new residence _____

Improvements to old residence - itemize

Description	Amount

Was the residence that was sold ever used for business purposes or as a rental property? Yes _____ No _____

If you have not purchased a new home, do you plan to purchase a new residence within 24 months of the sale of your old residence? Yes _____ No _____

MOVING EXPENSES

Did you change your residence during this year incident to a change in employment, transfer, or self-employment? Yes _____ No _____

If "yes," furnish the following information:

Number of miles from your former residence to your new business location _____ miles

Number of miles from your former residence to your former business location _____ miles

Did your employer reimburse or pay directly any of your moving expenses? Yes _____ No _____

If "yes," enclose the employer provided itemization form (Form 4782) and note the amount of reimbursement received. \$ _____

Itemize below the total moving costs you paid without reduction for any reimbursement by your employer.

Expenses of moving from old to new home:

Transportation expenses in moving household goods and family \$ _____

Cost of storing and insuring household goods \$ _____

INDIVIDUAL TAX ORGANIZER (1040)

RENTAL INCOME - Complete a separate schedule for each property.

1. Description and location of property _____

2. Residential property? Yes _____ No _____

3. Personal use? Yes _____ No _____

If "yes," please complete the information below.

Number of days the property was occupied by you, a member of the
family, or any individual not paying rent at the fair market value. _____
Number of days the property was not occupied. _____

4. Did you actively participate in the operation of the rental property during the year? Yes _____ No _____

5. a) Were more than half of personal services that you performed during the year performed
in real property trades or businesses in which you materially participated? Yes _____ No _____

b) Did you perform more than 750 hours of services during the year in real property
trades or businesses in which you materially participated? Yes _____ No _____

6. a) Were more than half of personal services that your spouse performed during the year
performed in real property trades or businesses in which your spouse materially
participated? Yes _____ No _____

b) Did your spouse perform more than 750 hours of services during the year in real
property trades or businesses in which your spouse materially participated? Yes _____ No _____

Income:			
Rents received		Other income	
Expenses:			
Mortgage interest		Legal	
Other interest		Cleaning	
Insurance		Assessments	
Repairs and maintenance		Utilities	
Travel		Other (itemize)	
Advertising			
Taxes			

If this is the first year we are preparing your return, provide depreciation records.

If this is a new property, provide the closing statement.

INDIVIDUAL TAX ORGANIZER (1040)

List below any improvements or assets purchased during the year.

Description	Date placed in service	Cost

If the property was sold during the year, provide the closing statement.

INCOME FROM PARTNERSHIPS, ESTATES OR TRUSTS, S CORPORATIONS

Enclose all schedule K-1 forms received to date. Also list below all K-1 forms not yet received:

Name	Source Code*	Federal ID #

*Source Code: P = Partnership E = Estate/Trust S = S Corporation

INDIVIDUAL TAX ORGANIZER (1040)

✓ CONTRIBUTIONS TO RETIREMENT PLANS

	TAXPAYER	SPOUSE
Are you covered by a qualified retirement plan? (Y/N)		
Do you want to make the maximum deductible IRA contribution? (Y/N)		
Do you want to make an IRA contribution even if part or all of it may not be deducted? (Y/N)		
If "Y," provide the following information: Copy of latest Form 8606 filed IRA payments made for this return.		
	\$	\$
IRA payments made for this return for nonworking spouse.	\$	\$
Do you want to make the maximum allowable Keogh/SEP contribution? (Y/N)		
KEOGH/SEP payments made for this return.	\$	\$

ALIMONY PAID

Name of Recipient(s) _____

SS# of Recipient(s) _____

Amount(s) Paid \$ _____

If a divorce occurred this year, enclose a copy of the divorce decree and property settlement.

INDIVIDUAL TAX ORGANIZER (1040)

MEDICAL AND DENTAL EXPENSES

Description	Amount
Premiums for health and accident insurance including medicare	
Medicine and drugs (prescription only)	
Doctors, dentists, nurses	
Hospitals, clinics, laboratories	
Other: Eyeglasses	
Ambulance	
Medical supplies	
Hearing aids	
Lodging and meals	
Travel	
Mileage (number of miles)	
Payments for in-home care (complete later section on home care expenses)	
Insurance reimbursements received	

Were any of the above expenses related to cosmetic surgery?

Yes ____ No ____

DEDUCTIBLE TAXES

Description	Amount
State and local income taxes payments made this year for prior year(s).	
Real estate taxes: Primary residence	
Secondary residence	
Other	
Personal property tax	
Ad valorem tax on automobile, truck, or trailer: Vehicle #1	
Vehicle #2	
Vehicle #3	
Intangible tax	
Other taxes (itemize)	
Foreign tax withheld (may be used as a credit)	

INDIVIDUAL TAX ORGANIZER (1040)

INTEREST EXPENSE

Mortgage interest (attach 1098 forms.)

Payee*	Property**	Amount

*Include address and social security number if payee is an individual.

**Describe the property securing the related obligation, i.e., principal residence, motor home, boat, etc.

Unamortized Points

Payee	Purpose	Amount

Investment/Passive Interest

Payee	Investment Purpose	Amount

Business Interest

Payee	Business Purpose	Amount

INDIVIDUAL TAX ORGANIZER (1040)

✓ CONTRIBUTIONS

Cash contributions for which you have receipts, canceled checks, etc. NOTE: You need to have written acknowledgment from any charity to which you made individual donations of \$250 or more during the year.

Donee	Amount	Donee	Amount

Cash contributions for which no receipts are available

Donee	Amount	Donee	Amount

Expenses incurred in performing volunteer work for charitable organizations:

Parking fees and tolls	\$	
Supplies	\$	
Meals & Entertainment	\$	
Other (itemize)	\$	
Actual out-of-pocket expenses for gas, oil, etc.	\$	

OR

Mileage _____

Other than cash contributions (enclose receipt(s)):

Organization name and address			
Description of property			
Date acquired			
How acquired			
Cost or basis			
Date contributed			
Fair market value (FMV)			
How FMV determined			

INDIVIDUAL TAX ORGANIZER (1040)

CASUALTY OR THEFT LOSSES

Loss of property by theft or damage to property by fire, storm, car accident, shipwreck, flood, or other "act of God."

	Property 1	Property 2	Property 3
Indicate type of property	<input type="checkbox"/> Business <input type="checkbox"/> Personal	<input type="checkbox"/> Business <input type="checkbox"/> Personal	<input type="checkbox"/> Business <input type="checkbox"/> Personal
Description of property			
Date acquired			
Cost			
Date of loss			
Description of loss			
Was property insured? (Y/N)			
Was insurance claim made? (Y/N)			
Insurance proceeds			
Fair market value before loss			
Fair market value after loss			

MISCELLANEOUS DEDUCTIONS

Description	Amount
Union dues	
Income tax preparation fees	
Legal fees (provide details)	
Safe deposit box rental (if used for storage of documents or items related to income-producing property)	
Small tools	
Uniforms which are not suitable for wear outside work	
Safety equipment and clothing	
Professional dues	
Business publications	
Unreimbursed cost of business supplies	
Employment agency fees	
Necessary expenses connected with producing or collecting income or for managing or protecting property held for producing income not reported on Form 2106 - Employee unreimbursed business expense	
Business use of home - (use "office in home" schedule provided in this organizer)	
Other miscellaneous deductions - itemize	

INDIVIDUAL TAX ORGANIZER (1040)

EMPLOYEE BUSINESS EXPENSES

Expenses incurred by: ☐ Taxpayer ☐ Spouse Occupation _____

(Complete a separate schedule for each business)

Description	Total Expense Incurred	Employer Reimbursement Reported on W-2	Employer Reimbursement Not on W-2
Travel expenses while away from home:			
Travel fares			
Lodging			
Meals and entertainment			
Other employee business expenses - itemize			

Automobile Expenses - Complete a separate schedule for each vehicle.

Vehicle description _____	Total business miles _____
Date placed in service _____	Total commuting miles _____
Cost/Fair market value _____	Total other personal miles _____
Lease term, if applicable _____	Total miles this year _____
Actual expenses	Average daily round trip commuting distance _____
Gas, oil _____	Taxes _____
Repairs _____	Tags & licenses _____
Tires, supplies _____	Interest _____
Insurance _____	Lease payments _____
Parking _____	Other _____

Did you acquire, lease or dispose of a vehicle for business during this year? Yes _____ No _____

If yes, enclose purchase and sales contract or lease agreement.

Did you use the above vehicle in this business less than 12 months? Yes _____ No _____

If "yes," enter the number of months _____.

Do you have another vehicle available for personal purposes? Yes _____ No _____

Do you have evidence to support your deduction? Yes _____ No _____

Is the evidence written? Yes _____ No _____

INDIVIDUAL TAX ORGANIZER (1040)

✓ CHILD CARE EXPENSES/HOME CARE EXPENSES

Did you pay an individual or an organization to perform services in the care of a dependent under 13 years old in order to enable you to work or attend school on a full time basis?

Yes _____ No _____

Did you pay an individual to perform in-home health care services for yourself, your spouse, or dependents?

Yes _____ No _____

If "yes," complete the following information:

Name and relationship of the dependents for whom services were rendered

List individuals or organizations to whom expenses were paid during the year. (Services of a relative may be deductible only if that relative is not a dependent and if the relative's services are considered employment for social security purposes.)

Name and Address	ID#	Amount

If payments of \$1,000 or more during the tax year were made to an individual, were the services performed in your home?

Yes _____ No _____

Was the individual who performed the services age 18 or older?

Yes _____ No _____

FIDUCIARY TAX ORGANIZER
FORM 1041

This organizer is designed to assist you in gathering the information needed to prepare the current year tax returns. Please complete the organizer and answer all questions. Should you have questions regarding any items, please call.

FIDUCIARY TAX ORGANIZER (1041)

Trust/Estate Name _____ TIN# _____

Fiduciary Name _____ SS# _____

Address _____

City, Town, or Post Office _____ County _____ State _____ Zip Code _____

Telephone Number _____ Telephone Number _____
Home (____) _____ Office (____) _____

If this is the first year we will prepare the tax return(s), provide the following from your file or your prior accountant:

- Will or trust agreement
- Tax returns for the prior three years
- Depreciation schedules
- Passive loss carryover information

Has there been a change in trustee? Yes _____ No _____

Has there been a change in beneficiaries? Yes _____ No _____
If so, provide new beneficiary information.

BENEFICIARIES

Full Name	Social Security Number	Address

ESTIMATED TAX PAYMENTS MADE

	FEDERAL		STATE	
	Date Paid	Amount Paid	Date Paid	Amount Paid
Prior year overpayment applied				
1st Quarter				
2nd Quarter				
3rd Quarter				
4th Quarter				

FIDUCIARY TAX ORGANIZER (1041)

INTEREST INCOME - Enclose 1099-INT forms and statements for all interest income including tax-exempt interest income.

[illegible]

DIVIDEND INCOME - Enclose 1099-DIV Forms and statements for all dividends including tax-exempt dividends.

[illegible]

FIDUCIARY TAX ORGANIZER (1041)

MISCELLANEOUS INCOME - List or enclose related 1099(s) or other forms.

Description	Amount
State and local income tax refund(s)	
Other miscellaneous income	

INCOME FROM TRADE OR BUSINESS

Principal trade or business _____

Business name _____

Business taxpayer identification number _____

Business address _____

Method(s) used to value closing inventory:

☐ Cost ☐ Lower of cost or market ☐ Other (describe) _____ N/A ☐

Accounting method:

☐ Cash ☐ Accrual ☐ Other (describe) _____

- | | <u>YES</u> | <u>NO</u> |
|---|------------|-----------|
| 1. Was there any change in determining quantities, costs or valuations between the opening and closing inventory? If "yes," attach explanation. | _____ | _____ |
| 2. Were any assets sold during the year? If "yes," list assets sold including date acquired, date sold, sales price, basis and gain or loss. | _____ | _____ |
| 3. Were any assets purchased during the year? If "yes," list assets acquired, including date placed in service and purchase price, including trade-in. Include copies of purchase invoices. | _____ | _____ |
| 4. List states in which business was conducted.

_____ | | |
| 5. Provide copies of certification for members of target groups and associated wages paid after September 30, 1996 qualifying for Work Opportunities Credit. SBJPA 1996. | _____ | _____ |

FIDUCIARY TAX ORGANIZER (1041)

Attach a financial statement of the business or complete the following worksheet.
Complete a separate schedule for each business.

Description	Amount
Part I - Income	
Gross receipts or sales	
Returns and allowances	
Other income (List type and amount)	
Part II - Cost of Goods Sold	
Inventory at beginning of year	
Purchases less cost of items withdrawn for personal use	
Cost of labor	
Materials and supplies	
Other costs (List type and amount)	
Inventory at end of year	
Part III - Expenses	
Advertising	
Bad debts from sales or services	
Car and truck expenses (Provide details on separate sheet)	
Commissions and fees	
Depletion	
Depreciation and section 179 expense deduction (provide depreciation schedules)	
Employee benefit programs (other than Pension and Profit Sharing plans shown below)	
Insurance (other than health)	
Interest:	
a. Mortgage (paid to banks, etc.)	
b. Other	
Legal and professional services	
Office expense	

FIDUCIARY TAX ORGANIZER (1041)

Pension and profit-sharing plans (employee's portion only)	
Rent or lease:	
a. Vehicles, machinery, and equipment	
b. Other business property	
Repairs and maintenance	
Supplies	
Taxes and licenses	
Travel, meals, and entertainment:	
a. Travel	
b. Meals and entertainment	
Utilities	
Wages	
Club dues:	
a. Civic club dues	
b. Social or entertainment club dues	
Other expenses (list type and amount)	

CAPITAL GAINS AND LOSSES - Enclose all 1099-B and 1099-S Forms. If you want us to complete the following information furnish all your brokerage account statements and transaction slips.

Enter sales reported to you on Forms 1099-B and 1099-S:

Description	Date Acquired	Date Sold	Sales Proceeds	Cost or Basis	Gain (Loss) Long-Term Over 12 mos.	Gain (Loss) Short-Term 12 mos. or Less

FIDUCIARY TAX ORGANIZER (1041)

Enter any sales **NOT** reported on forms 1099-B and 1099-S:

Description	Date Acquired	Date Sold	Sales Proceeds	Cost or Basis	Gain (Loss) Long-Term Over 12 mos.	Gain (Loss) Short-Term 12 mos. or Less

INCOME FROM PARTNERSHIPS, ESTATES OR TRUSTS, S CORPORATIONS - Enclose all schedule K-1 forms received to date. Also list below all K-1 forms not yet received:

Name	Source Code*	Federal ID #

*Source Code: P = Partnership E = Estate/Trust S = S Corporation

FIDUCIARY TAX ORGANIZER (1041)

RENTAL INCOME - Complete a separate schedule for each property.

Description and location of property _____

Residential property? Yes _____ No _____

Personal use? Yes _____ No _____

If "yes," please complete the information below.

Number of days the property was occupied by a related party not paying rent at the fair market value. _____

Number of days the property was not occupied. _____

Income:			
Rents received		Other income	
Expenses:			
Mortgage interest		Legal	
Other interest		Cleaning	
Insurance		Assessments	
Repairs and maintenance		Utilities	
Travel		Other (itemize)	
Advertising			
Taxes			

If this is the first year we are preparing your return, provide depreciation records.

If this is a new property, provide the closing statement.

List below any improvements or assets purchased during the year?

Description	Date placed in service	Cost

If the property was sold during the year, provide the closing statement.

FIDUCIARY TAX ORGANIZER (1041)

CONTRIBUTIONS

Cash contributions for which you have receipts, canceled checks, etc.

NOTE: You need to have written acknowledgment from any charity to which you made individual donations of \$250 or more during the year.

Donee	Amount	Donee	Amount

Cash contributions for which no receipts are available:

Donee	Amount	Donee	Amount

Other than cash contributions:

Organization name and address			
Description of property			
Date acquired			
How acquired			
Cost or basis			
Date contributed			
Fair market value (FMV)			
How FMV determined			

FIDUCIARY TAX ORGANIZER (1041)

INTEREST EXPENSE

Mortgage interest (attach 1098 forms.)

Payee*	Property**	Amount

*Include address and social security number if payee is an individual.

**Describe the property securing the related obligation, i.e., principal residence, motor home, boat, etc.

Unamortized Points

Payee	Purpose	Amount

Investment/Passive Interest

Payee	Investment Purpose	Amount

Business Interest

Payee	Business Purpose	Amount

FIDUCIARY TAX ORGANIZER (1041)

DEDUCTIBLE TAXES

Description	Amount
State and local income tax payments made this year for prior year(s).	
Real estate taxes:	
Personal property tax	
Intangible tax	
Other taxes (itemize)	
Foreign tax withheld (may be used as a credit)	

MISCELLANEOUS DEDUCTIONS

Description	Amount
Income tax preparation fees	
Legal fees (provide details)	
Safe deposit box rental (if used for storage of documents or items related to income-producing property)	
Fiduciary Fees	
Investment Fees	
Other miscellaneous deductions - itemize	

PARTNERSHIP TAX ORGANIZER (1065)

Organization Name _____	Tax Period _____
Address _____	Federal ID# _____
_____	State ID# _____

Provide a general ledger, trial balance, depreciation schedules, balance sheet and profit and loss statement. In addition, provide the following information:

	<u>DONE</u>	<u>N/A</u>
1. Attach copies of notices from tax authorities regarding changes to prior year returns.	_____	_____
2. Provide details of partner ownership changes.	_____	_____
3. For each partner, provide ID#, address, percentage of ownership, profit/loss %, and general or limited classification. Identify the Tax Matters Person.	_____	_____
4. Schedule all payments or distributions to or for partners including descriptions, amounts and the accounts to which these amounts have been posted.	_____	_____
5. Schedule loans to/from partners and related parties including interest rates and payment schedules.	_____	_____
6. Provide a schedule of all fringe benefits paid on behalf of partners and indicate which benefits have been included in their guaranteed payments.	_____	_____
7. Provide detailed analysis of entries in prepaid and accrued expense accounts.	_____	_____
8. Provide forms 1099, 941, 940, 5500 and W-2s that have been filed.	_____	_____
9. Provide a schedule of all interest and dividend income.	_____	_____
10. Schedule assets acquired and/or sold during the year including date acquired, date sold, sales or purchase price, including any trade-in allowance.	_____	_____
11. Provide a copy of the inventory uniform capitalization computation.	_____	_____
12. Provide a schedule of contributions.	_____	_____
13. Provide detail of any lobbying expenses.	_____	_____
14. Schedule non-deductible expenses such as penalties and life insurance premiums.	_____	_____
15. Provide a schedule of any club dues paid.	_____	_____
16. Provide vehicle and mileage data for partnership owned passenger vehicles.	_____	_____
17. Provide details of miscellaneous expenses.	_____	_____
18. Furnish total of meal and entertainment expenses.	_____	_____
19. List each type of trade or business activity or rental activity and indicate the date started or acquired	_____	_____
20. Provide a list of activities conducted in other states.	_____	_____

PARTNERSHIP TAX ORGANIZER
FORM 1065
(EXPANDED VERSION)

ORGANIZATION NAME

ADDRESS

TAX YEAR ENDING

FEDERAL ID#

STATE ID#

This organizer is designed to assist you in gathering the information needed to prepare the Partnership's current year tax returns. Complete the organizer and answer all questions. Should you have questions regarding any items, please call.

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and profit and loss statement by activity. In addition, the following information will be needed:

YES NO N/A

100) GENERAL INFORMATION

101) If this is the first year we will prepare the tax return(s), provide the following from your file or your prior accountant: _____

- Partnership agreement
- Tax returns for the prior three years
- Depreciation schedules
- Partner basis carryforward schedule
- Partner buy/sell agreement
- If the partnership elected a fiscal year end, provide a schedule of section 444 tax deposits and Form 8716.
- Section 704(b) capital account reconciliation

102) Has the partnership been notified of any changes to previous returns by any taxing authority? If "yes," attach any notifications. _____

103) Have there been any amendments to the partnership agreement during this tax year? If "yes," attach a copy. _____

104) Provide the following information for all partners:

- Name
- Address
- Social Security/Taxpayer Identification Number
- General partner or limited partner
- Type of entity
- Domestic or foreign
- Profit sharing percentage
- Loss sharing percentage
- Percentage ownership
- Changes in partner's ownership interest after 10/22/86
- Capital account reconciliation

105) Which general partner should be designated as the Tax Matters Partner, if applicable?

106) Has there been a change in ownership since last year? If "yes," attach a schedule reflecting prior and current year ownership. _____

107) Did any of the partners' taxable years change during the year? If "yes," attach a schedule detailing the change. _____

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

YES NO N/A

108) List the names and telephone numbers of the partnership's advisors:

	Name	Telephone
Attorney		
Banker		
Insurance		
Broker		

109) Does the partnership have any of the following employee benefit plans?

- | | |
|--|--|
| <p>.1) Qualified retirement plan(s)?
 If "yes," are we to prepare 5500 series form(s)? ____
 Number of plans ____
 Are we to compute the contribution? ____</p> <p>.2) SEP plan?
 If "yes," are we to compute the contribution? ____</p> <p>.3) Cafeteria plan?
 If "yes," are we to prepare 5500 series form? ____</p> <p>.4) Non-qualified retirement plan(s)?
 Number of plans ____ (describe)

 _____</p> <p> If "yes," has the "one time only" filing with the Department of Labor been done? _____</p> <p>.5) Other benefit plans not described above?
 If "yes," describe:

 _____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> |
|--|--|

110) Describe the principal business activity of the partnership:

- | | |
|--|---------------------------|
| <p>.1) Did the partnership acquire or dispose of a business or business segment during this tax year? If "yes," attach a copy of the contract or agreement.</p> <p>.2) Did the partnership engage in any new activities during this tax year?
 If "yes," attach a description of the new business.</p> | <p>_____</p> <p>_____</p> |
|--|---------------------------|

<p>111) Does the partnership provide fringe/welfare benefits to employees or partners? If "yes," provide a list of benefits provided.</p>	<p>_____</p> <p>_____</p>
---	---------------------------

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
112) Did the partnership include taxable fringe/welfare benefits such as health insurance, group life insurance, educational assistance, expense allowances and personal use of company vehicles as compensation in employee's W-2 forms and, if applicable, subject such amounts to payroll taxes?	_____	_____	_____
113) Provide a schedule, by partner, of fringe benefits paid on behalf of each partner such as medical, life insurance, disability and housing. Indicate which accounts have been charged.	_____		_____
114) Provide copies of Forms 1099, 941, 940 and W-2 that have been filed.			_____
115) Did the partnership have loans with partners and/or other related parties during the tax year?	_____	_____	
If "yes," attach a schedule indicating the amount of the loan, date of transaction, interest rate and payments. Also, attach a copy of the note if not previously provided.			
116) Should the address shown on the return be different from last year? If so, what address should be shown on the return?	_____	_____	
<div style="border-bottom: 1px solid black; width: 200px; margin-bottom: 2px;"></div> <div style="border-bottom: 1px solid black; width: 200px; margin-bottom: 2px;"></div> <div style="border-bottom: 1px solid black; width: 200px;"></div>			
117) Is the partnership a partner in another partnership? If yes, attach a copy of other partnership return(s).	_____	_____	
118) Circle method of accounting for tax purposes:			
Cash Accrual Other (Describe) _____			
119) Did the partnership establish any new general ledger accounts during the tax year? If "yes," attach a list with a brief explanation of each account.	_____	_____	
120) Did the partnership post any entries to the partnership capital accounts during the year? If "yes," provide detail of the activity.	_____	_____	
121) Was there a distribution of property or a transfer (for example, by sale or death) of a partnership interest during this tax year?	_____	_____	
If marketable securities were distributed, provide the date of distribution and fair market value at distribution date(s). _____			
122) Has the partnership ever elected to "step up" the basis of any assets in connection with the death of a partner or a change in ownership? (754 election)	_____	_____	
123) Did the partnership, at any time during the tax year, have an interest in a foreign bank account?	_____	_____	
124) Was the partnership the grantor of, or transferor to, a foreign trust during the tax year?	_____	_____	

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

- | | <u>YES</u> | <u>NO</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 125) Does the partnership do business in any other state(s)? If "yes," list state(s) _____
_____ | _____ | _____ | |
| .1) Provide copies of supporting schedules reflecting the three factor (property, payroll, sales) multistate apportionment formula used to determine income. | | | _____ |
| .2) Provide a schedule showing any amounts for which there are known timing or treatment differences between federal and applicable state reporting. | _____ | _____ | |
| 126) How many additional copies of the return do you need? ____ | | | |
| 127) Is this a final return? | _____ | _____ | |

200) INCOME

- | | | |
|--|-------|-------|
| 201) Does the partnership engage in more than one trade or business activity? If "yes," attach a list and note those started or acquired after 10/22/86. | _____ | _____ |
| 202) Does the partnership engage in any rental real estate activity? If "yes," attach a list and note those started or acquired after 10/22/86. | _____ | _____ |
| 203) Did the partnership receive interest income from the following sources? If "yes," indicate the amount. | _____ | _____ |
| U.S. agencies _____ | | |
| U.S. government _____ | | |
| Tax exempt-out of state _____ | | |
| Tax exempt-in state _____ | | |
| Tax exempt-private activity _____ | | |
| 204) Did the partnership sell any stocks, bonds or securities during the year? If "yes," complete the following: | | |

Description of Securities Sold	Dates Acquired	Cost or Basis Plus Selling Expenses	(Trade Date) Date Sold	Total Sales Price

- | | | |
|--|-------|-------|
| 205) Did the partnership own any securities that became worthless during the year? If "yes," attach details. | _____ | _____ |
| 206) Did the partnership acquire any "Qualified Small Business Stock?" | _____ | _____ |

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

YES NO N/A

207) Did the partnership own any mutual funds? If "yes" attach year end statement.

208) During the tax year, did the partnership sell or dispose of any assets used in the business?
If "yes," provide a schedule listing:

- Description of asset sold
- Date sold
- Sales price
- Selling expenses
- Date acquired
- Original cost or basis
- Depreciation claimed in prior years

209) Provide detail of all items greater than \$_____ in the miscellaneous income account.

Description	Amount

210) Did the partnership have any sales during the year that qualify for the installment method of reporting? If "yes," attach a copy of the agreement, the principal and interest received, and the beginning of year and end of year contract balances.

211) Were there any sales or exchanges during the year between the partnership and a partner?
If "yes," provide a detailed listing.

212) Did the partnership engage in any bartering activity during the year? If so, provide a schedule of all such activities.

300) DEDUCTIONS

301) Were there any payments to partners during the year for services or for the use of capital determined without regard to income? If "yes," provide the details below:

Partner	Description	Amount

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

YES NO N/A

302) Do the Uniform Capitalization Rules under section 263A related to items such as inventory and construction apply? If "yes," attach copies of all schedules reflecting the calculation of the amount of general and administrative expenses required to be capitalized in ending inventory or associated with self-constructed assets.

303) List all charitable contributions made or accrued during the tax year:

NOTE: You need to have written acknowledgment from any charity to which individual donations of \$250 or more were made during the year.

Organization	Amount

304) Did the partnership make political contributions during the tax year?

.1) If "yes," enter the amount. \$_____

.2) If "yes," enter to which accounts were the contributions posted.

305) Did you incur any expenses to influence legislation (lobbying)? If "yes," provide a schedule of "lobbying expenses" and indicate to which accounts these expenses were posted.

306) Does the partnership pay life insurance premiums (other than group term life) for any partner(s)? If "yes," provide the following for each policy:

- | | |
|---|--|
| <ul style="list-style-type: none"> • Face amount • Insured • Policy owner • Beneficiary • Type of policy | <ul style="list-style-type: none"> • Premium paid • Cash surrender value at year end • Loan balance at year end • Interest paid on policy loan |
|---|--|

To which general ledger accounts have the payments been posted?

307) Did the partnership pay any penalties/fines during the tax year? If "yes," list amount(s) and indicate the reason for the penalty/fine.

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

YES NO N/A

Description	Amount

308) Did the partnership acquire any assets during the tax year? If "yes," provide a schedule of assets purchased including the date placed in service, and a copy of the purchase invoice. Include any trade-in information.

309) Did any partners contribute any assets to the partnership during the year? If "yes," provide a schedule of such assets received including date placed in service and partner's basis in such assets and fair market value of such asset.

310) Does the partnership wish to use accelerated depreciation methods?
Does the partnership wish to use accelerated 179 depreciation?

311) Does the partnership own or lease any vehicles? If "yes," provide the following information for each vehicle (NOTE: certain exceptions may apply for taxpayers with more than five vehicles):

- Vehicle description
- Date placed in service
- Business miles
- Commuting miles
- Other personal miles
- Total miles
- Average daily round trip commuting distance

.1) Does the partnership have evidence to support the claimed business use?
If "yes," is the evidence written?

.2) Were the vehicles available for personal use during off-duty hours?

.3) Were the vehicles used primarily by a more than 5% owner or related person?

.4) Is another vehicle available for personal use?

.5) Provide a copy of the lease for any leased vehicles. If not available, provide the following:

- Date of lease
- Fair market value at inception

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

YES NO N/A

- Term of lease
- Lease payments

312) Regarding partnership policy for vehicles:

- | | | | |
|--|-------|-------|-------|
| .1) Does the partnership maintain a written policy statement that prohibits all personal use of vehicles, <u>including</u> commuting, by employees? | _____ | _____ | _____ |
| .2) Does the partnership maintain a written policy statement that prohibits personal use of vehicles, <u>excluding</u> commuting, by employees? | _____ | _____ | _____ |
| .3) Does the partnership treat all use of vehicles by employees as personal use? | _____ | _____ | _____ |
| .4) Does the partnership provide more than five vehicles to employees and retain the information received from employees concerning the use of vehicles? | _____ | _____ | _____ |
| .5) Does the partnership require or maintain copies of vehicle logs? | _____ | _____ | _____ |

313) Are computers, cellular phones or other property used for personal purposes? If "yes," complete the following:

Description	Date Placed in Service	Business Use %	Cost or Basis

- | | | | |
|---|-------|-------|-------|
| .1) Does the partnership have evidence to support the business use claimed? | _____ | _____ | _____ |
| .2) If "yes," is the evidence written? | _____ | _____ | _____ |
- 314) Did the partnership have any meal or entertainment expenses? If "yes," which account(s) were these items posted to?
- _____
- 315) Did the partnership pay any social or entertainment club dues? If "yes," provide the amounts \$_____ and to which account these items were posted.
- _____

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

YES NO N/A

316) Schedule below all items in the miscellaneous expense account greater than \$_____.

Description	Amount

317) Will all compensation related accruals (including vacation pay) be paid within 2½ months of year end? If "no," provide details of unpaid amounts.

318) Provide copies of certification for members of target groups and associated wages paid after September 30, 19 96 qualifying for Work Opportunities Credit (SBJPA 1996).

319) Provide the following information for all items of interest expense:

Payee	Purpose of Loan	Recourse/ Non-Recourse	Year End Principal Balance	Interest Expense

320) Were there any accruals of interest, compensation or other expenses to partners at year end?
If "yes," provide detail.

CORPORATION TAX ORGANIZER (1120)

Corporation Name	_____	Tax Period	_____
Address	_____	Federal ID#	_____
	_____	State ID#	_____

Provide a general ledger, trial balance, depreciation schedules, balance sheet and profit and loss statement. In addition, provide the following information:

	<u>DONE</u>	<u>N/A</u>
1. Attach copies of notices from tax authorities regarding changes to prior year returns.	_____	_____
2. Provide details of changes in stock ownership.	_____	_____
3. For each corporate officer provide SS#, compensation, percentage of ownership and time devoted to business.	_____	_____
4. Provide a schedule of loans to/from shareholders, officers and related parties including interest rates and payment schedules.	_____	_____
5. Provide detailed analysis of entries in prepaid, accrued, and income tax expense accounts, including dates and amounts of all federal, state and local income tax payments and refunds.	_____	_____
6. Provide copies of forms 1099, 941, 940, 5500 and W-2s that have been filed.	_____	_____
7. Provide a schedule of all interest and dividend income.	_____	_____
8. Provide a schedule of assets acquired and/or sold during the year including date acquired, date sold, sales or purchase price, including any trade-in allowance.	_____	_____
9. Provide a copy of the inventory uniform capitalization computation.	_____	_____
10. Provide a schedule of contributions.	_____	_____
11. Provide detail of any lobbying expenses.	_____	_____
12. List non-deductible expenses, such as penalties and life insurance premiums.	_____	_____
13. Provide a schedule of any club dues paid.	_____	_____
14. Provide vehicle and mileage data for company owned passenger vehicles.	_____	_____
15. Provide details of miscellaneous income/expense accounts.	_____	_____
16. Furnish total of meal and entertainment expenses.	_____	_____
17. Provide a list of activities conducted in other states.	_____	_____

S CORPORATION TAX ORGANIZER (1120S)

Corporation Name _____	Tax Period _____
Address _____	Federal ID# _____
_____	State ID# _____

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and profit and loss statement by activity. In addition, provide the following information:

	<u>DONE</u>	<u>N/A</u>
1. Provide copies of notices from tax authorities regarding changes to prior year returns.	_____	_____
2. Provide details of changes in stock ownership.	_____	_____
3. For each shareholder provide ID#, compensation, percentage of ownership, time devoted to business, date ownership acquired and detail of distributions received. Identify the Tax Matters Person.	_____	_____
4. Provide a schedule of all fringe benefits paid on behalf of more than 2% shareholders and indicate which benefits have been included in their W-2.	_____	_____
5. Provide a schedule of loans to/from shareholders, officers and related parties including interest rates and payment schedules.	_____	_____
6. Provide schedule of built-in gains.	_____	_____
7. Provide detailed analysis of entries in prepaid, accrued, and income tax expense accounts, including dates and amounts of all federal, state and local income tax payments and refunds.	_____	_____
8. Provide copies of forms 1099, 941, 940, 5500 and W-2s that have been filed.	_____	_____
9. Provide a schedule of all interest and dividend income.	_____	_____
10. Provide a schedule of assets acquired and/or sold during the year including date acquired, date sold, sales or purchase price, including any trade-in allowance.	_____	_____
11. Provide a copy of the inventory uniform capitalization computation.	_____	_____
12. Provide a schedule of contributions.	_____	_____
13. Provide detail of any lobbying expenses.	_____	_____
14. Provide a schedule of any club dues paid.	_____	_____
15. List non-deductible expenses such as penalties and life insurance premiums.	_____	_____
16. Provide vehicle and mileage data for company owned passenger vehicles.	_____	_____
17. Provide details of miscellaneous income/expense accounts.	_____	_____
18. Furnish total of meal and entertainment expenses.	_____	_____
19. List each type of trade or business activity or rental activity and indicate the date started or acquired.	_____	_____
20. Provide a list of activities conducted in other states.	_____	_____

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

ORGANIZATION NAME _____

ADDRESS _____

TAX YEAR ENDING _____

FEDERAL ID# _____

STATE ID# _____

This organizer is designed to assist you in gathering the information needed to prepare the Corporation's current year tax returns. Please complete the organizer and answer all questions. Should you have questions regarding any items, please call.

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and profit and loss statement by activity. In addition, the following information will be needed:

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
100) GENERAL INFORMATION			
101) If this is the first year we will prepare the tax return, provide the following from your file or your prior accountant:			
• Tax returns for the prior three years	_____		_____
• Depreciation schedules	_____		_____
• List of all investments	_____		_____
• All tax carryforward schedules such as NOL, tax credits, contributions, etc.	_____		_____
• Copy of buy/sell agreement	_____		_____
 <u>S CORPORATION ONLY</u>			
• Provide a copy of the S corporation approval.	_____		
• Provide a list of all shareholders and provide the following information:	_____		
• Name			
• Address			
• ID#			
• Type of entity			
• Number of shares			
• If the corporation (1) filed its election to be an S corporation after December 31, 1986; and (2) was a C corporation prior to making the election, provide a copy of the schedule of net built-in gains.	_____		_____
• Has the corporation elected a fiscal year end? If "yes," provide a schedule of section 444 tax deposits and a copy of Form 8716.	_____	_____	_____
• Does the corporation engage in more than one trade or business activity? If "yes," list and note those started or acquired after October 22, 1986.	_____	_____	_____
• Does the corporation engage in any rental activity? If "yes," list and note those started or acquired after October 22, 1986.	_____	_____	_____
102) Should the address shown on the return be different from last year? If so, what address should be shown on the return?	_____	_____	
103) Has the corporation been notified of any changes to previous returns by any taxing authority? If "yes," attach copies of all correspondence.	_____	_____	
104) If ownership changed during the year, has there been a change in ownership percentages? Provide a schedule of all changes, including dates and number of shares.			_____
105) Have there been any changes to the shareholders' buy/sell agreement? If "yes," provide a copy.	_____	_____	

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

106) Has the corporation updated its minute book for the year? If "yes," provide copies.

___ ___

107) Provide the names and telephone numbers of the corporation's advisors:

	Name and Address	Telephone
Attorney		
Banker		
Insurance		
Broker		

108) Describe the principal business activity of the corporation:

.1) Did the corporation purchase or sell a business or business segment during this year?
If "yes," provide a copy of contract or agreement.

___ ___

.2) Did the corporation engage in any new activities during the year? If "yes," describe new business on an attached sheet.

___ ___

109) Does the corporation have any of the following employee benefit plans?

.1) Qualified retirement plan(s)?
If "yes," are we to prepare 5500 series form(s)?
Are we to compute the contribution?

___ ___
___ ___
___ ___

.2) SEP plan?
If "yes," are we to compute the contribution?

___ ___
___ ___

.3) Cafeteria plan?
If "yes," are we to prepare 5500 series form?

___ ___
___ ___

.4) Non-qualified retirement plan(s)?
Number of plans ____ (describe)

___ ___

If "yes," has the "one time only" filing with the Department of Labor been done?

___ ___

.5) Other benefit plans not described above?
If "yes," describe:

___ ___

110) Did the corporation include taxable fringe/welfare benefits such as health insurance, group term life insurance, educational assistance, expense allowances and personal use of corporate owned vehicles as compensation in employee W-2 forms and, if applicable, subject such amounts to payroll taxes?

___ ___ ___

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
111) At year end, did the corporation own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? If "yes":	_____	_____	
.1) Name: _____			
Address: _____			
ID#: _____			
Ownership percentage: _____			
.2) Income (loss) of such corporation \$ _____			
112) At year end did any corporation, individual, partnership, trust or estate own, directly or indirectly, 50% or more of the corporation's voting stock? If "yes":	_____	_____	
.1) Name: _____			
Address: _____			
ID#: _____			
Ownership percentage: _____			
.2) Was such owner a person other than a U.S. citizen?			
	_____	_____	
113) Do the shareholders owning 80% or more of this corporation own 80% or more of any other corporation(s)? If "yes," provide a copy of the other corporate tax returns.	_____	_____	
114) Is this corporation a shareholder of any foreign corporation? If "yes," identify each corporation.	_____	_____	
115) Did the corporation at any time during the year have an interest in a foreign bank account? If "yes," provide details.	_____	_____	
116) Was the corporation the grantor or transferor to a foreign trust during the year? If "yes," provide details.	_____	_____	
117) During this taxable year, did the corporation pay dividends? If "yes," attach a schedule reflecting date declared, date paid, amount and form of payment (cash, other).	_____	_____	
118) Did one foreign person, at any time during the tax year, own directly or indirectly, 25% or more of the total voting power or value of all classes of stock of the corporation? If "yes":	_____	_____	
.1) Enter the percentage owned _____.			
.2) Enter the owner's country _____.			

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

119) List income tax deposits below in order of date paid:

	Prior Year Overpayment Applied	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Extension
FEDERAL						
Date Paid						
Amount	\$					
STATE						
Date Paid						
Amount	\$					

120) Provide a detailed schedule of the activity, for the tax year, in the corporation's general ledger income tax accounts (asset, liability and expense). _____

121) Circle method of accounting for tax purposes:

Cash Accrual Other (Describe) _____

122) Did the corporation establish any new general ledger accounts during the year? If "yes," provide a list with a brief explanation of each new account. _____

123) Did the corporation post any entries to the retained earnings account during the year? If "yes," provide details of the activity. _____

124) Provide copies of forms 1099, 941, 940, and W-2s that have been filed. _____

125) Did the corporation have loans with shareholder(s) and other related parties during the tax year? If "yes," provide a schedule indicating the amount of the loan, date of transaction, interest rate and payments. Also, provide a copy of the note if not previously provided. _____

126) Does the corporation do business in any other state? If "yes," list state returns required: _____

.1) Provide copies of supporting schedules reflecting the three factor (property, payroll, sales) multistate apportionment formula. _____

.2) Provide a schedule showing any amounts for which there are known timing or treatment differences between federal and state reporting. _____

127) How many additional copies of the return do you need? _____

128) Is this a final return? _____

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

200) INCOME

- 201) Did the corporation receive interest income from the following sources?
If "yes," list total amount.

U.S. Agencies _____
Tax exempt-in state _____
U.S. Government _____
Tax exempt-out of state _____
Tax exempt-private activity _____

- 202) Did the corporation sell any stocks, bonds, or securities during the year? If "yes," complete the following:

Description of Securities Sold	Date Acquired	Cost or Basis Plus Selling Expenses	(Trade Date) Date Sold	Total Sales Price

- 203) Did the corporation own securities that became worthless during the year? If "yes," attach details.

- 204) Did the corporation sell any assets used in its business? If "yes," provide a schedule listing:

- Description of asset sold
- Date sold
- Sales price
- Selling expenses
- Date acquired
- Original cost or basis
- Depreciation claimed in prior years

- 205) Provide detail of all items greater than \$ _____ in the miscellaneous income account.

Description	Amount

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

206) Did the corporation receive dividend income this year?

.1) If "yes," schedule dividend income by source:

Stock/Mutual Fund Name	Date Purchased	Amount of Dividend	Percent Owned if Over 20%

.2) If dividends are from mutual funds, provide the year-end statements.

207) Did the corporation make any sales qualifying for the installment method of reporting? If "yes," attach a copy of the agreement, the principal and interest received, and the beginning of the year and end of the year contract balances.

208) Were there any sales or exchanges during the year between the corporation and a shareholder? If "yes," attach a detailed schedule.

209) Did the corporation engage in any bartering activity during the year? If so, attach a schedule of all such activities.

300) DEDUCTIONS

301) Information regarding corporate officers:

Name	Social Security Number	% Time Devoted to Business	% Stock Owned		Compensation
			Common	Preferred	

302) Fiscal year Personal Service Corporation's (PSC):

.1) Is the corporation a PSC on a fiscal year? If "yes," provide the following information:

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

Name of Officer/Shareholder	Compensation from Beg. of Fiscal Year to End of Calendar Year	Compensation from Beg. of Subsequent Calendar Year to End of Fiscal Year	Total Compensation

.2) If the PSC has elected a fiscal year end, provide a copy of an approved election (Form 8716) if not previously provided. _____

303) Do the Uniform Capitalization Rules under section 263A related to items such as inventory and construction apply? If "yes," provide copies of all schedules supporting the calculation of the amount of general and administrative expenses required to be capitalized in ending inventory or associated with self constructed assets. _____

304) List charitable contributions made or accrued during the year:

NOTE: You need to have written acknowledgment from any charity to which individual donations of \$250 or more were made during the year.

Organization	Amount

.1) Did the corporation have an accrued charitable contribution at year end? If "yes," attach a copy of minutes authorizing contribution. _____

.2) Did the corporation make a charitable contribution of inventory or property? If "yes," attach detail. _____

.3) Did the corporation make political contributions during this tax year? If "yes," enter amount \$_____. (Please note "Corporate political contributions" are illegal.) _____

305) Did you incur any expenses to influence legislation and "lobbying?" If "yes," provide a schedule of "lobbying expenses" and indicate which accounts these expenses were posted to. _____

306) Does the corporation pay life insurance premiums (other than group term life) for officers of the corporation? If "yes," provide the following for each policy: _____

- Face amount
- Premium paid
- Insured

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

- Cash surrender value at year end
- Policy owner
- Loan balance at year end
- Beneficiary
- Interest paid on policy loan
- Type of policy

To which general ledger accounts have the payments been posted?

- 307) Did the corporation pay penalties/fines during the tax year? If "yes," list amount(s) and indicate the reason for the penalty/fine.

Description	Amount

- 308) Did the corporation acquire any assets during the tax year? If "yes," attach a list of assets purchased including the date placed in service and a copy of the purchase invoice. Include any trade-in information.

- 309) Does the corporation wish to use accelerated depreciation methods?
Does the corporation wish to use section 179 depreciation?

- 310) Does the corporation own or lease any vehicles? If "yes," provide the following information for each vehicle (note certain exceptions may apply for companies with more than five vehicles):

- Vehicle description
- Other personal miles
- Date placed in service
- Total miles
- Business miles
- Average daily round trip commuting distance
- Commuting miles

- .1) Does the corporation have evidence to support the claimed business use?
If "yes," is the evidence written?

- .2) Were the vehicles available for personal use during off-duty hours?

- .3) Were the vehicles used primarily by a more than 5% owner or related person?

- .4) Is another vehicle available for personal use?

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

.5) Provide a copy of the lease for any leased vehicles. If not available, provide the following:

- Date of lease
- Fair market value at inception
- Term of the lease
- Lease payments

311) Regarding corporate policy for vehicles:

.1) Does the corporation maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by employees?

.2) Does the corporation maintain a written policy statement that prohibits personal use of vehicles, excluding commuting, by employees?

.3) Does the corporation treat all use of vehicles by employees as personal use?

.4) Does the corporation provide more than five vehicles to employees and retain the information received from employees concerning the use of the vehicles?

.5) Does the corporation require or maintain copies of vehicle logs?

312) Are computers or cellular phones or other listed property used by employees for personal purposes? If "yes," complete the following:

Description	Date Placed in Service	Business Use %	Cost or Basis

.1) Does the corporation have evidence to support the business use claimed?

.2) If "yes," is evidence written?

313) Did the corporation have any meal and/or entertainment expenses? If "yes," to which account(s) were these items posted? _____

314) Did the corporation pay any club dues? If "yes," to which account were these items posted?

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

315) List all items in the miscellaneous expense account greater than \$_____.

Description	Amount

316) Will all compensation related accruals (including vacation pay) be paid within 2½ months of year end? If "no," provide details of unpaid amounts.

317) Are there any accruals to shareholder(s) at year end? If "yes," provide detail.

318) Provide copies of certification for members of target groups and associated wages paid after September 30, 1996 qualifying for Work Opportunities Credit (SBJPA 1996).

400) S CORPORATIONS ONLY

401) Have fringe benefits paid on behalf of more than 2% shareholders (including but not limited to medical, life insurance, disability, housing, etc.) been included in shareholder's compensation, and included in payroll taxes? Indicate to which accounts these amounts have been posted.

402) Which shareholder is to be designated as the Tax Matters Person if required?

QUALIFIED RETIREMENT PLAN ORGANIZER
FORM 5500

This organizer is designed to assist you in gathering the information needed to prepare the Form 5500. Complete the organizer and answer all questions. Should you have questions regarding any items, please call.

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

PLAN NAME _____ PLAN YEAR _____

CONTACT PERSON _____ PHONE # _____ FAX # _____

SPONSOR NAME _____ PLAN # _____

SPONSOR ADDRESS _____ FEDERAL ID# _____

TYPE OF ENTITY _____

PLAN ADMINISTRATOR _____ SPONSOR ID# _____

ADMINISTRATOR ADDRESS _____ ADMINISTRATOR ID# _____

TRUSTEE _____ TRUSTEE ID# _____

TRUSTEE ADDRESS _____

PLAN ATTORNEY _____

INVESTMENT ADVISOR _____

NOTE: Certain narrowly defined terms, such as "key employee" and "highly compensated employee," are explained at the end of this organizer.

	<u>Previously Provided</u>	<u>Attached</u>	<u>N/A</u>
101) If this is the first year in which we are to prepare your 5500 series form, furnish the following items:			
.1) Plan document and adoption agreement and amendments.	_____	_____	_____
.2) Prior three years' summary annual reports.	_____	_____	_____
.3) Most current summary plan descriptions.	_____	_____	_____
.4) Prior three years' Independent Qualified Accountant Reports (if applicable).	_____	_____	_____
.5) Prior three years' plan financial statements.	_____	_____	_____
.6) Prior three years' 5500 series form.	_____	_____	_____
.7) Prior three years' employee census, including balances and vesting information.	_____	_____	_____
.8) Most recent IRS determination letter.	_____	_____	_____
.9) If the plan allows for loans, provide copies of loan documents and amortization schedules.	_____	_____	_____
102) Furnish the following items for the current year:			
.1) Employee census (specimen attached or update attached census from prior year).	_____	_____	_____
.2) Plan financial statements.	_____	_____	_____
.3) If there are no financial statements for the plan, provide the following:			
.a) Recap of receipts and disbursements for all bank accounts.	_____	_____	_____
.b) Reconciled bank statements as of the plan's year-end.	_____	_____	_____
.c) Recaps or copies of all monthly brokerage or investment accounts for the plan year.	_____	_____	_____
.d) Schedule of fair market value of all investments as of the close of the plan year.	_____	_____	_____
.4) Detail of employer contributions for the plan year. Indicate dates accrued and paid or scheduled to be paid.	_____	_____	_____

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

	<u>Previously Provided</u>	<u>Attached</u>	<u>N/A</u>
.5) Form 5500, schedule A, where a portion or all of the plan is invested in insurance contracts.	_____	_____	_____
.6) Page 1 of the income tax return (schedule C if sole proprietorship).	_____	_____	_____
.7) Copies of new loan documents.	_____	_____	_____
.8) Copies of Forms 1099-R issued.	_____	_____	_____
.9) Copies of Forms 945.	_____	_____	_____
	<u>YES</u>	<u>NO</u>	<u>N/A</u>
103) Was the plan terminated during the plan year? If "yes," provide a copy of resolution (executed).	_____	_____	
104) Were there any amendments during the plan year? If "yes," provide copies of the amendment(s).	_____	_____	
105) Has the plan been audited by either the Internal Revenue Service or the Department of Labor? If "yes," attach copies of all correspondence.	_____	_____	
106) Have there been any disputed claims or litigation filed or threatened with respect to the plan? If "yes," attach copies of all correspondence.	_____	_____	
107) Was the plan insured by a fidelity bond for loss through fraud or dishonesty? If "yes," complete the following:	_____	_____	
Name of surety company _____			
Amount of bond _____			
108) Was any participant separated from service with a deferred vested benefit during the plan year?	_____	_____	
109) Are there any individuals in the company who have worked more than 1,000 hours who are not considered to be a common law employee (e.g., independent contractor)? If "yes," include these individuals on the employee census form and identify them as "leased or not leased."	_____	_____	_____
110) List officers and owner(s) of company and percentage of ownership:			

NAME	TITLE	OWNERSHIP PERCENTAGE

111) Does any key employee, or any member of the key employee's family, own an interest in any other privately owned business? (Generally, a key employee is an officer who has compensation of \$ 60,000 or greater, a 5% or more owner or a 1% owner with compensation exceeding \$150,000). If yes, complete the following.

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

EMPLOYEE NAME	RELATIONSHIP TO OWNER	NAME AND TYPE OF ENTITY	OWNERSHIP PERCENTAGE

- | | <u>YES</u> | <u>NO</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 112) Do any relatives of any key or highly compensated employee work for the company? If "yes," identify them on the employee census. | _____ | _____ | |
| 113) Did all new participants receive a summary plan description? | _____ | _____ | |
| 114) Did all terminated participants receive required Forms 1099-R, notice of tax effect of distribution and benefit statement? | _____ | _____ | _____ |
| 115) Have participants received required annual information about their account balance(s), vested percentage(s) and matching contributions? | _____ | _____ | |
| 116) Was the prior year summary annual report for the plan year distributed to participants? | _____ | _____ | |
| 117) When was the last filing of the summary plan description with the Department of Labor? Date: _____ | | | |
| 118) Has there been any reversion of plan assets to the employer during the plan year? | _____ | _____ | |
| 119) Did any service provider receive more than \$5,000 in compensation from the plan during the plan year? If "yes," attach a schedule. | _____ | _____ | |
| 120) Has there been a termination of the appointment of any of the following?

__ accountant __ enrolled actuary __ insurance carrier
__ administrator __ investment manager __ trustee or custodian

If "yes," attach explanation(s). | _____ | _____ | |
| 121) Did any of the following transactions occur between the plan and any parties-in-interest (e.g., employer, participant, etc.)? If "yes," attach explanation. | _____ | _____ | |
| .1) The sale, exchange or leasing of any property. | _____ | _____ | _____ |
| .2) The lending of money or other extension or credit (with certain exemptions for plan loans to participants or beneficiaries). | _____ | _____ | _____ |
| .3) The furnishing of goods, services, or facilities. | _____ | _____ | _____ |
| .4) The transfer to, or use of any plan assets, by or for the benefit of a party-in-interest. | _____ | _____ | _____ |

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
.5) The plan's acquisition or retention of any employer security or employer property.	<u> </u>	<u> </u>	<u> </u>
122) Is the plan audited by an independent qualified public accountant? If yes, provide the accountant's opinion and report and complete the following questions concerning transactions during the plan year.	<u> </u>	<u> </u>	
.1) Did the plan have assets held for investment?	<u> </u>	<u> </u>	<u> </u>
.2) Were any loans or fixed obligations due the plan in default as of the close of the plan year or considered uncollectible?	<u> </u>	<u> </u>	<u> </u>
.3) Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets?	<u> </u>	<u> </u>	<u> </u>
.4) Did the plan engage in any non-exempt transactions with parties-in-interest not reported in the notes to the financial statement?	<u> </u>	<u> </u>	<u> </u>
.5) Did the plan hold qualifying employer securities that are not publicly traded?	<u> </u>	<u> </u>	<u> </u>
.6) Did the plan purchase or receive any nonpublicly traded securities that were not appraised in writing by an unrelated third party within three months prior to their receipt?	<u> </u>	<u> </u>	<u> </u>
.7) Did any person manage plan assets who had a financial interest worth more than 10% in any party providing services to the plan or receive anything of value from any party providing services to the plan?	<u> </u>	<u> </u>	<u> </u>

SAMPLE CENSUS UPDATE REPORT

* See codes on attached page

** Covered compensation is defined by the plan.

QUALIFIED RETIREMENT PLAN ORGANIZER (\$500)

SAMPLE UPDATE EMPLOYEE CENSUS INSTRUCTIONS

Compensation

Contributions and allocations are based upon a specific definition defined in the Plan Document. For your document compensation is defined as noted below.

Please complete the census request form using the following definitions as they apply to your plan.

<input type="checkbox"/>	Compensation reported as taxable income for W-2 purposes	
<input type="checkbox"/>	Wages paid during the plan year	
<input type="checkbox"/>	Compensation before 401(k) deferrals and after section 125 deferrals	
<input type="checkbox"/>	Wages accrued during the plan year	
<input type="checkbox"/>	Includes bonus <input type="checkbox"/>	Excludes bonus <input type="checkbox"/>
<input type="checkbox"/>	Includes tips <input type="checkbox"/>	Excludes tips <input type="checkbox"/>
<input type="checkbox"/>	Includes commissions <input type="checkbox"/>	Excludes commissions <input type="checkbox"/>
<input type="checkbox"/>	Other _____	

Hours of Service

Hours of service are the basis for determining eligibility to the plan, eligibility to receive an employer contribution and vesting. If actual hours are available for the plan year, please provide the actual hours worked. However, if actual hours are not maintained by the employer, you may use the following coding to identify hours worked:

L	Less than 500 hours	S	Between 499 and 1000 hours	F	1,000 hours or more.
----------	---------------------	----------	----------------------------	----------	----------------------

Status Codes

Status codes are used in calculating distributions and various government reports. Status may also affect eligibility for certain benefits.

Type 1: Sex M = Male F = Female	Type 2: Employee Status 1 = Active 2 = Terminated 3 = Retired 4 = Disabled 5 = Ineligible 6 = Leave of Absence	Type 3: Key Employee a = Key employee b = Highly compensated c = Key & highly compensated d = Family member of key or highly compensated employee	Type 4: Marital Status Y = Married N = Unmarried
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QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

DEFINITIONS

KEY EMPLOYEE

A key employee means any employee who at any time during the current or preceding four years meets any one of the tests described below:

- (1) **Officer Test**. An officer of the employer whose annual compensation is equal to or greater than 50% of the defined benefit dollar limitation (50% = \$59,400 for plan years beginning in 1996). The number of officers to be taken into account is limited to 50. If there are less than 50 officers for purposes of this test, the lesser of 10% of total employees or three officers is used for the test. If there are more officers than the limited number, the officers with the highest one-year compensation during the five-year period are used.
- (2) **Compensation Test**. One of the ten employees having annual compensation in excess of \$30,000 and owning the largest interest in the employer. Only consider interest owned by employees to determine the ten largest interests. If two or more employees own the same percentage interest, the employee with the greatest compensation is used for the test.
- (3) **5% Owner Test**. An employee who owns more than 5% of the employer. An individual is considered as owning stock owned directly or indirectly by a spouse, children, grandchildren and parents.
- (4) **1% Owner Test**. An employee who owns more than 1% of the employer and whose annual compensation exceeds \$150,000.

HIGHLY COMPENSATED EMPLOYEE

A highly compensated employee is an employee who during the current or preceding year (even if now terminated):

- (1) Was a more than 5% owner of the employer.
- (2) Received compensation in excess of \$99,000.
- (3) Received compensation in excess of \$66,000 and was in the top-paid 20% of employees.
- (4) Was an officer and received compensation of more than \$60,000. The same employee-number limitations apply as in (1) under "Key Employee." However, if no officer has compensation of more than \$60,000 the most highly paid officer will be treated as being highly compensated.

Treat as a single employee any 5% owner and his family members or one of the ten most highly compensated employees and his family members. Family members with respect to an affected employee include his spouse, lineal ascendants or descendants and their spouses.

SAMPLE ENGAGEMENT LETTERS

This package contains samples of engagement letters to be used in connection with engagements to prepare income tax returns for:

- Individuals (Form 1040)
- Partnerships/LLPs/LLCs (Form 1065)
- Corporations (Form 1120)
- S Corporations (Form 1120S)
- Estates and Trusts (Form 1041)
- Qualified Retirement Plans (Form 5500)
- Estate Tax (Form 706)
- Tax Examination Engagement Letter

In addition, there are several optional paragraphs that may be used in lieu of or to supplement the various sample engagement letters contained herein. These optional paragraphs include 1) substantial understatement penalty disclosures for each type of engagement letter, 2) a paragraph limiting the scope of the engagement, 3) a paragraph discussing client records, 4) a paragraph disclosing the use of an outside processing service, 5) a paragraph regarding outside disclosure for peer review programs, 6) a paragraph disclosing finance charges, 7) a paragraph discussing the negligence penalty, and 8) a paragraph offering the option of electronically filing the tax return. A sample letter for use in connection with a tax examination engagement is also provided.

These engagement letter samples are issued as drafts only and do not represent an official AICPA position. Practitioners using them retain responsibility for their final content. They should be reviewed carefully and changed as necessary for your particular use. In adapting these drafts to your particular needs you should be sure to consider the following:

- 1) AICPA Statements on Responsibilities in Tax Practice,
- 2) state requirements regarding disclosure of finance charges,
- 3) state Board of Accounting requirements pertaining to disclosure of the use of an outside service bureau,
- 4) the desirability of obtaining the signed affirmation of the client (or clients in the case of joint and consolidated returns),
- 5) the need for a new engagement letter each year, and
- 6) a paragraph disclosing late payment charges.

1040 - INDIVIDUAL TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with you and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare your 199__ federal and requested state income tax returns from information that you will furnish us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of complete and accurate returns. You should retain all the documents, canceled checks and other data that form the basis of income and deductions. These may be necessary to prove the accuracy and completeness of the returns to a taxing authority. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign them.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist. We/I will render such accounting and bookkeeping assistance as determined to be necessary for preparation of the income tax returns.

We/I will use professional judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or the circumstances of these penalties, please contact us/me.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other tax returns you expect us/me to prepare, such as gift and/or property, please inform us/me by noting so at the end of the returned copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _____

Date: _____

1065 - PARTNERSHIP/LLP/LLC TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of Partnership or Limited Liability Company) for the year ended (___) and to clarify the nature and extent of the services we/I will provide. Also, by sending you this engagement letter we/I have assumed that you are the person responsible for the tax matters of the partnership. If this is not a correct assumption, please furnish us/me with the name of the tax matters partner.

Our/My engagement will be designed to perform the following services:

1. Prepare the federal, state, and local income tax returns with supporting schedules.
2. Perform any bookkeeping necessary for preparation of the income tax returns.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use our/my judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor, whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or circumstances of these penalties, please contact us/me. Because this is an entity whose tax attributes flow through to its partners or members, the penalty for substantial understatement of tax relating to this entity may be imposed on the partners or members.

Management is responsible for the proper recording of transactions in the books of accounts, for the safeguarding of assets, and for the substantial accuracy of the financial records. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign and file them.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are any additional returns you expect us/me to prepare, please note this at the end of the returned copy of this letter, just below your signature.

We/I want to express our/my appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _____

Title: _____

Date: _____

1120 - CORPORATION TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of Corporation) for the year ended (___) and to clarify the nature and extent of the services we/I will provide. Also, by sending you this engagement letter we/I have assumed that you are the person responsible for the tax matters of the corporation. If this is not a correct assumption, please furnish us/me with the name of the individual with whom this work should be coordinated.

Our/My engagement will be designed to perform the following services:

1. Prepare the federal, state, and local income tax returns with supporting schedules.
2. Perform any bookkeeping necessary for preparation of the income tax returns.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use our/my judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or circumstances of these penalties, please contact us/me.

Management is responsible for the proper recording of transactions in the books of accounts, for the safeguarding of assets, and for the substantial accuracy of the financial records. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign and file them.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are any additional returns you expect us/me to prepare, please note this at the end of the returned copy of this letter, just below your signature.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _____

Title: _____

Date: _____

1120S - S CORPORATION TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of S Corporation) for the year ended (___) and to clarify the nature and extent of the services we/I will provide. Also, by sending you the engagement letter, we/I have assumed that you are the person responsible for the tax matters of the corporation. If this is not a correct assumption, please furnish us/me with the name of the tax matters person.

Our/My engagement will be designed to perform the following services:

1. Prepare the federal, state, and local income tax returns with supporting schedules.
2. Perform any bookkeeping necessary for preparation of the income tax returns.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use our/my judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or circumstances of these penalties, please contact us/me. Because an S corporation is an entity whose tax attributes generally flow through to its shareholders, the penalty for substantial understatement of tax relating to S corporation items may be imposed at either the corporate or shareholder level.

Management is responsible for the proper recording of transactions in the books of accounts, for the safeguarding of assets, and for the substantial accuracy of the financial records. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign and file them.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our office. However, if there are additional returns you expect us/me to prepare, please note this at the end of the returned copy of this letter, just below your signature.

We/I want to express our/my appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _____

Title: _____

Date: _____

1041 - FIDUCIARY (ESTATES AND TRUSTS) TAX RETURN
ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of Estate or Trust) for the year ended (____) and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare the 199__ federal and requested state fiduciary income tax returns from information which you will furnish to us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of complete and accurate returns. You should retain all the documents, canceled checks and other data that form the basis of income and deductions. These may be necessary to prove the accuracy and completeness of the returns to a taxing authority. You have the final responsibility for the fiduciary income tax returns and, therefore, you should review them carefully before you sign them.

Our/My work in connection with the preparation of the fiduciary income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist. We/I will render such accounting and bookkeeping assistance as determined to be necessary for preparation of the income tax returns.

We/I will use professional judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or the circumstances of these penalties, please contact us/me.

The returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other tax returns you expect us/me to prepare, such as gift and/or property, please inform us/me by noting so at the end of the return copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _____

Date: _____

5500 - QUALIFIED RETIREMENT PLAN RETURN
ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (name of plan) for the plan year ended (____) and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare your 199__ Form 5500 (or other 5500 series form) from information which you will furnish to us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of a complete and accurate return. You should retain all the documents and other data that form the basis of the Form 5500 filing. These may be necessary to prove the accuracy and completeness of the returns to the Internal Revenue Service and Department of Labor. You have the final responsibility for the return and, therefore, you should review it carefully before you sign it.

Our/My work in connection with the preparation of your Form 5500 filing does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use professional judgment in resolving questions or where there may be conflicts between the authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

Your return may be selected for review by the Internal Revenue Service and the Department of Labor. Any proposed corrective adjustments by the examining agent are subject to certain rights of appeal. In the event of such government examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

This engagement letter relates only to the plan(s) specified above. Please notify us/me if you have additional employee benefit plans that might require a Form 5500 filing.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other returns you expect us/me to prepare, please inform us/me by noting so at the end of the returned copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _____

Date: _____

706 - ESTATE AND INHERITANCE TAX RETURN ENGAGEMENT LETTER

Dear Fiduciary:

This letter is to confirm and specify the terms of our/my engagement with (Name of Estate) and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare the appropriate federal and state estate and inheritance tax returns from information which you will furnish to us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of complete and accurate returns. You should retain all the documents and other data that form the basis of calculating the gross estate and appropriate deductions. These may be necessary to prove the accuracy and completeness of the returns to a taxing authority. You have the final responsibility for the estate and inheritance tax returns and, therefore, you should review them carefully before you sign them.

Our/My work in connection with the preparation of the estate and inheritance tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist. Likewise, we/I do not warrant the accuracy of any valuations or the appropriateness of the values used in the preparation of the tax returns.

We/I will use professional judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or the circumstances of these penalties, please contact us/me.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other tax returns you expect us/me to prepare, please inform us/me by noting so at the end of the returned copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _____

Date: _____

TAX EXAMINATION ENGAGEMENT LETTER

Dear Client:

This letter will confirm the arrangements for our/my representation of you with respect to the Internal Revenue Service examination of your _____ Federal income tax return. As part of this engagement, we/I request that you sign the attached Form 2848, *Power of Attorney and Declaration of Representative*, which will notify the IRS that we/I are your authorized representative.

We/I will represent you before the Internal Revenue Service during this examination, unless the arrangement is terminated in writing by either party. Furthermore, in the event we/I cannot resolve all of the issues at the examination level, we/I will be available to appeal any proposed deficiency at the Appeals Division of the Internal Revenue Service, although that appeal is not part of this engagement.

We/I will not audit, or otherwise verify, any information provided by you for presentation to the Internal Revenue Service during the course of the examination, unless we/I deem it necessary or you specifically request us to do so in writing. However, we/I may ask you for further clarification and expect you to provide that clarification promptly and candidly.

Our communications are “confidential,” not “privileged.” That is, they may not be disclosed unless you approve under *most* circumstances. On the other hand, privileged communications are not permitted to be disclosed, even in court. There is no CPA-client privilege in Federal matters. Accordingly, if we/I are served by a properly issued administrative summons compelling us/me to testify in court proceedings, even our/my confidential communications are subject to disclosure.

The Internal Revenue Service has recently begun emphasizing a number of procedures during examinations to ascertain that taxpayers have reported all of their income. These procedures have led to a growing number of requests by examining agents to interview the taxpayer directly. However, you do have a statutory right to be represented, and *not* to meet with the examining agent (unless you are served with an enforceable administrative summons). It is in your best interest to refer any questions or other contact from the agent to us/me without discussing the case with the agent. By signing this engagement letter you acknowledge that any direct contact by the IRS will be promptly referred to us/me as your authorized representative. It is hereby acknowledged that if you choose to appear before or discuss this case with the agent against our/my advice, you do so at your own risk.

Fees for our/my representation (plus out-of-pocket expenses) will be billed as incurred. We/I also require a retainer of \$_____, payable on acceptance of this agreement.

Fees and expenses are due and payable upon presentation of our invoice to you. Bills rendered to you will not be applied against the \$_____ retainer. Our/my fee for representing you will be based upon our/my time, billed at our/my customary rates. We/I estimate our/my fees to be \$_____ or on average \$_____ per hour. If we/I have not received payment in accordance with the stated terms, we/I reserve the right to terminate this engagement with no further notice.

If this letter reflects your understanding of the terms of our engagement, please sign below and return one copy in the enclosed envelope.

We/I look forward to serving you.

Very truly yours,

Accepted By: _____

Title: _____

Date: _____

OPTIONAL PARAGRAPHS FOR INCLUSION IN TAX ENGAGEMENT LETTERS

A) Accuracy-Related Penalty Disclosures

1. For Individuals:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For individual taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or \$5,000. The penalty is 20 percent of the tax underpayment. Taxpayers may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in your returns.

2. For Partnerships and Limited Liability Companies:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For partnerships and individual taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or \$5,000. The penalty is 20 percent of the tax underpayment. Taxpayers other than "tax shelters" may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. A taxpayer is considered a "tax shelter" if its principal purpose is to avoid federal income tax. Because a partnership is an entity whose tax attributes flow through to its partners, the penalty for substantial understatement of tax relating to partnership items may be imposed on the partner. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with

respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in your returns.

3. For C Corporations:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For corporate taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or \$10,000. The penalty is 20 percent of the tax underpayment. Taxpayers may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purposes of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in your returns.

4. For S Corporations:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For S corporations and individual taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or \$5,000. The penalty is 20 percent of the tax underpayment. Taxpayers other than "tax shelters" may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. A taxpayer is considered a "tax shelter" if its principal purpose is to avoid Federal income tax. Because an S corporation is an entity whose tax attributes generally flow through to its shareholders, the penalty for substantial understatement of tax relating to S corporation items may be imposed at either the corporate or shareholder level. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is

"substantial authority" for the position proposed to be taken on such issue in your returns.

5. For Fiduciaries (Estates and Trusts):

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of its tax liability. For fiduciary taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or \$5,000. The penalty is 20 percent of the tax underpayment. Fiduciaries may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. You agree to advise us/me if you wish disclosure to be made in the returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in the returns.

- B) The engagement does not include any services not specifically stated in this letter. However, we/I would be pleased to consult with you regarding the income tax matters such as proposed or completed transactions, income tax projections, and for research in connection with such matters. We/I will render additional invoices for such services at our/my standard billing rates.
- C) You represent that the information you are supplying to us/me is accurate and complete to the best of your knowledge and that your expenses for meals, entertainment, travel, business gifts, charitable contributions, dues and memberships, and vehicle use are supported by records as required by law. We/I will not verify the information you give us/me. However, we/I may ask you for clarification of some of the information.
- D) Your tax return will be processed by an outside tax computer processing center. Please advise us/me if you prefer that we/I request extra security or forego the outside processing altogether.
- E) We/I subscribe to a program of peer review for maintenance of quality control in our/my office. As part of this program, your return may be selected for review by other CPAs under strict rules of confidentiality. Your acceptance below constitutes your agreement for disclosure under the program.

- F) A late payment charge of ____ percent per month will be assessed on any unpaid balance after deduction of current payments, credits, and allowances made within 30 days of date of billing. This is an Annual Percentage Rate of ____ percent.
- G) The law provides for a penalty of 20 percent to be imposed on any underpayment that results from negligence or disregard of rules or regulations. Negligence "includes any failure to make a reasonable attempt to comply ..." with the code. Disregard "includes any careless, reckless or intentional disregard." Taxpayers may seek to avoid all or part of the penalty by showing they acted in good faith and can demonstrate reasonable basis for the understatement.
- H) You may choose to have us/me file your return electronically with the Internal Revenue Service Center. You must review and sign the return before it can be electronically transmitted. We/I are/am not responsible for the length of time it takes the IRS to process your return. Our/my fee for this service is _____.
- I) We/I have attached a tax organizer. It is designed to assist you in gathering the data necessary for us/me to prepare a complete and accurate return.

1040 - INDIVIDUAL TRANSMITTAL LETTER

(Date) _____

(Taxpayer) _____

(Address) _____

Dear (Taxpayer) _____:

Enclosed are the originals and copies of your 19XX federal, (State) _____, and (Local) _____ individual income tax returns. The copies are for your files. The originals are to be filed as follows:

FORM 1040 - The original return should be signed and dated by you/both of you and mailed on or before (Date) _____ to:
Internal Revenue Service
(Center Address) _____

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$_____. Attach a check payable to 'Internal Revenue Service' for this amount to your return, noting your social security number and '19XX Form 1040' on your check.
- ☐ The return shows an overpayment of \$_____, of which \$_____ will be credited to your estimated tax for 19XX, the balance of \$_____ will be refunded to you.

FORM (STATE) - The original return should be signed and dated by you/both of you and mailed on or before (Date) _____ to:

(Agency)

(Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$_____. A check payable to (Payee) _____ in this amount should be attached to/enclosed with your return. Your social security number and '19XX Form _____' should be noted on your check.
- ☐ The return shows an overpayment of \$_____, of which \$_____ will be credited to your estimated tax for 19XX and \$_____ will be refunded to you.

FORM (LOCAL) - The original return should be signed and dated by you/both of you and mailed on or before (Date) _____ to:

(Agency)

(Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$_____. A check payable to (Payee) _____ in this amount should be attached to/enclosed with your return. Your social security number and '19XX Form _____' should be noted on your check.
- ☐ The return shows an overpayment of \$_____, of which \$_____ will be credited to your estimated tax for 19XX and \$_____ will be refunded to you.

These returns were prepared from information you furnished to us/me. Before signing and filing these returns you should review them carefully to be sure that there are no omissions or misstatements.

Your returns are subject to review by federal, state and local taxing agencies. Upon examination, requests may be made for supporting documentation. Accordingly, we/I recommend that you retain your tax records for a period of at least ____ years.

Please contact us/me immediately if you receive any notification from federal, state or local taxing agencies regarding your tax returns.

Also enclosed are originals and copies of your federal, (State) and (Local) estimated tax payment vouchers for 19XX/the tax year ending (Date). The copies are for your files. The originals are to be filed as follows:

FEDERAL ESTIMATES

On or before each due date shown below, mail the respective voucher to:

Internal Revenue Service
(Address)

Enclose a check payable to 'Internal Revenue Service' in the amount indicated, noting your social security number and '19XX Form 1040-ES' on your check.

	Due Date	Amount
Overpayment Applied		\$
First Quarter	April 15, 19XX	\$
Second Quarter	June 15, 19XX	\$
Third Quarter	September 15, 19XX	\$
Fourth Quarter	January 15, 19XX	\$
TOTAL		\$

(STATE) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

(Agency)
(Address)

Enclose a check payable to (Payee) in the amount indicated, noting your social security number and '19XX Form ____' on your check.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

(LOCAL) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

(Agency)
(Address)

Enclose a check payable to (Payee) in the amount indicated, noting 'Form __,' tax period ending (Date), and your (Local) identification number on the check.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

Your estimated tax payments were based on prior year taxable year income and withholdings. Therefore, you should contact us/me concerning any changes in income or withholding.

The original documents you furnished with your organizer are enclosed.

We/I appreciate this opportunity to be of service to you. Please contact us/me should you have any questions regarding the enclosed returns or if we/I can be of any further assistance.

Very truly yours,

(Preparer)

1041 - FIDUCIARY TRANSMITTAL LETTER

(Date)

(Fiduciary Estate/Trust name)

(Address)

Dear Fiduciary:

Enclosed are the originals and copies of the 19XX federal, (State), and (Local) fiduciary income tax returns for the estate/trust. The copies are for your files. The originals are to be filed as follows:

FORM 1041 - The original return should be signed and dated by the fiduciary and mailed on or before (Date) to:

Internal Revenue Service
(Center Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$____. Attach a check payable to 'Internal Revenue Service' for this amount to the return, noting the taxpayer identification number and '19XX Form 1041' on the check.
- ☐ The return shows an overpayment of \$____, of which \$____ will be credited to the estimated tax for 19XX and \$____ will be refunded.

FORM (STATE) - The original return should be signed and dated by the fiduciary and mailed on or before (Date) to:

(Agency)
(Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$____. A check payable to (Payee) in this amount should be attached to/enclosed with the return. The taxpayer identification number and '19XX Form ____' should be noted on the check.
- ☐ The return shows an overpayment of \$____, of which \$____ will be credited to the estimated tax for 19XX and \$____ will be refunded.

FORM (LOCAL) - The original return should be signed and dated by the fiduciary and mailed on or before (Date) to:

(Agency)
(Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$____. A check payable to (Payee) in this amount should be attached to/enclosed with the return. The taxpayer identification number and '19XX Form ____' should be noted on the check.

- ☐ The return shows an overpayment of \$____, of which \$____ will be credited to the estimated tax for 19XX and \$____ will be refunded.

These returns were prepared from information furnished to us/me. Before signing and filing these returns they should be reviewed carefully to be sure that there are no omissions or misstatements.

The returns are subject to review by federal, state and local taxing agencies. Upon examination, requests may be made for supporting documentation. Accordingly, we/I recommend that the tax records be retained for a period of at least ____ years.

Please contact us/me immediately if any notification from federal, state or local taxing agencies is received regarding tax returns.

Also enclosed are originals and copies of the federal, (State) and (Local) estimated tax payment vouchers for 19XX/the tax year ending (Date). The copies are for your files. The originals are to be filed as follows:

FEDERAL ESTIMATES

On or before each due date shown below, mail the respective voucher to:

Internal Revenue Service
(Address)

Enclose a check payable to 'Internal Revenue Service' in the amount indicated, noting the taxpayer identification number and '19XX Form 1041-ES' on the check.

	Due Date	Amount
Overpayment Applied		\$
First Quarter	April 15, 19XX	\$
Second Quarter	June 15, 19XX	\$
Third Quarter	September 15, 19XX	\$
Fourth Quarter	January 15, 19XX	\$
TOTAL		\$

(STATE) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

(Agency)
(Address)

Enclose a check payable to (Payee) in the amount indicated, noting the taxpayer identification number and '19XX Form ____' on the check.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

(LOCAL) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

(Agency)
(Address)

Enclose a check payable to (Payee) in the amount indicated, noting 'Form __,' tax period ending (Date), and the (Local) identification number on the check.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

The estimated tax payments were based on prior year taxable year income and withholdings. Therefore, you should contact us/me concerning any changes in income or withholding.

The original documents you furnished with you organizer are enclosed.

We/I appreciate this opportunity to be of service to you. Please contact us/me should you have any questions regarding the enclosed returns or if we/I can be of any further assistance.

Very truly yours,

(Preparer)

1065 - PARTNERSHIP TRANSMITTAL LETTER

(Date) _____

(Taxpayer) _____

(Address) _____

Dear (Taxpayer) :

Enclosed are the originals and copies of your federal, (State), and (Local) partnership income tax returns for 19XX/the year ended (Date). The copies are for your files. The originals are to be filed as follows:

FORM 1065 - The original return should be signed and dated by a general partner of the Partnership and mailed on or before (Date) to:

Internal Revenue Service
(Center Address)

The return shows no balance due and no refund.

FORM (STATE) - The original return should be signed and dated by a general partner of the Partnership and mailed on or before (Date) to:

(Agency)
(Address)

The return shows no balance due and no refund.

FORM (LOCAL) - The original return should be signed and dated by a general partner of the Partnership and mailed on or before (Date) to:

(Agency)
(Address)

The return shows no balance due and no refund.

Also enclosed is a Schedule K-1 for each partner. Please distribute the Schedule K-1s to the respective partners immediately.

These returns were prepared from information you furnished to us/me. Before signing and filing these returns you should review them carefully to be sure that there are no omissions or misstatements.

Your returns are subject to review by federal, state, and local taxing agencies. Upon examination, requests may be made for supporting documentation. Accordingly, we/I recommend that you retain your tax records for a period of at least ____ years.

Please contact us/me immediately if you receive any notification from federal, state, or local taxing agencies regarding your tax returns.

We/I appreciate this opportunity to be of service to you. Please contact us/me should you have any questions regarding the enclosed returns or if we/I can be of any further assistance.

Very truly yours,

(Preparer) _____

1120 - CORPORATION TRANSMITTAL LETTER

(Date)

(Taxpayer)

(Address)

Dear (Taxpayer) :

Enclosed are the originals and copies of your federal, (State), and (Local) corporation income/franchise tax returns for 19XX/the year ended (Date). The copies are for your files. The originals are to be filed as follows:

FORM 1120 - The original return should be signed and dated by an authorized officer of the Corporation and mailed on or before (Date) to:

Internal Revenue Service
(Center Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$____. Deposit this amount at a qualifying financial institution along with a completed Form 8109, 'Federal Tax Deposit Coupon,' on or before (Date). Be sure to darken the '1120' box for type of tax and the '4th Quarter' box for tax period on the Deposit Coupon. On the check indicate 'Form 1120,' tax period ended (Date), and your employer identification number. Based upon your past deposit history, you may be required to use the Electronic Fund Transfer (EFT) method for making these deposits.
- ☐ The return shows an overpayment of \$____, of which \$____ will be refunded to you and \$____ will be credited to your estimated tax for 19XX/the tax year ending (Date).

FORM (STATE) - The original return should be signed and dated by an authorized officer of the Corporation and mailed on or before (Date) to:

(Agency)
(Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$____. A check payable to (Payee) in this amount should be attached to/enclosed with the return. 'Form ____,' tax period ended (Date), and your (State) identification number should be noted on the check.
- ☐ The return shows an overpayment of \$____, of which \$____ will be refunded to you and \$____ will be credited to your estimated tax for 19XX/the tax year ending (Date).

FORM (LOCAL) - The original return should be signed and dated by an authorized officer of the Corporation and mailed on or before (Date) to:

(Agency)
(Address)

- ☐ The return shows no balance due and no refund.

- ☐ The return shows a balance due of \$____. A check payable to (Payee) in this amount should be attached to/enclosed with your return. 'Form ____,' tax period ended (Date) , and your (Local) identification number should be noted on the check.
- ☐ The return shows an overpayment of \$____, of which \$____ will be refunded to you and \$____ will be credited to your estimated tax for 19XX/the tax year ending (Date).

These returns were prepared from information you furnished to us/me. Before signing and filing these returns you should review them carefully to be sure that there are no omissions or misstatements.

Your returns are subject to review by federal, state and local taxing agencies. Upon examination, requests may be made for supporting documentation. Accordingly, we/I recommend that you retain your tax records for a period of at least ____ years.

Please contact us/me immediately if you receive any notification from federal, state, or local taxing agencies regarding your tax returns.

Also enclosed are originals and copies of your federal, (State) and (Local) estimated tax payment vouchers for 19XX/the tax year ending (Date). The copies are for your files. The originals are to be filed as follows:

FEDERAL ESTIMATES

On or before each due date shown below, deposit the respective amount along with a completed Form 8109, 'Federal Tax Deposit Coupon' at an authorized financial institution. Be sure to darken the '1120' box for type of tax and the '1st Quarter' box for tax period on the Deposit Coupon. On the check indicate 'Form 1120,' tax period ending (Date) , and your employer identification number. Based upon your past deposit history, you may be required to use the Electronic Fund Transfer (EFT) method for making these deposits.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

(STATE) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

 (Agency)
 (Address)

Enclose a check payable to (Payee) in the amount indicated, noting 'Form ,' tax period ending (Date), and your (State) identification number on the check.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

(LOCAL) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

 (Agency)
 (Address)

Enclose a check payable to (Payee) in the amount indicated, noting 'Form ,' tax period ending (Date), and your (Local) identification number on the check.

	Due Date	Amount
Overpayment Applied		
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

Your estimated tax payments for 19XX/the tax year ending (date) were calculated using taxable income of \$ /the same as 19XX/the tax year ended (date). If your situation changes, contact us/me immediately to determine if your estimated payments need to be revised.

We/I appreciate this opportunity to be of service to you. Please contact us/me should you have any questions regarding the enclosed returns or if we/I can be of any further assistance.

Very truly yours,

(Preparer)

1120S - S CORPORATION TRANSMITTAL LETTER

(Date)

(Taxpayer)

(Address)

Dear (Taxpayer):

Enclosed are the originals and copies of your federal, (State), and (Local) S Corporation income/franchise tax returns for 19XX/the year ended (Date). The copies are for your files. The originals are to be filed as follows:

FORM 1120S - The original return should be signed and dated by an authorized officer of the Corporation and mailed on or before (Date) to:

Internal Revenue Service
(Center Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance of \$ _____. Deposit this amount at a qualifying financial institution along with a completed Form 8109, 'Federal Tax Deposit Coupon,' on or before Date. Be sure to darken the '1120' box for type of tax and the '4th Quarter' box for tax period on the Deposit Coupon. On the check indicate 'Form 1120,' tax period ended (Date) and your employer identification number. Based upon your past deposit history, you may be required to use the Electronic Fund Transfer (EFT) method for making these deposits.
- ☐ The return shows an overpayment of \$____, of which \$_____ will be refunded to you and \$_____ will be credited to your estimated tax for 19XX/the tax year ending (Date).

FORM (STATE) - The original return should be signed and dated by an authorized officer of the Corporation and mailed on or before (Date) to:

(Agency)
(Address)

The return shows no balance due and no refund.

FORM (LOCAL) - The original return should be signed and dated by an authorized officer of the Corporation and mailed on or before (Date) to:

(Agency)
(Address)

Also enclosed is a Schedule K-1 for each shareholder. Please distribute the Schedule K-1s to the respective shareholders immediately.

These returns were prepared from information you furnished to us/me. Before signing and filing these returns you should review them carefully to be sure that there are no omissions or misstatements.

Your returns are subject to review by federal, state, and local taxing agencies. Upon examination, requests may be made for supporting documentation. Accordingly, we/I recommend that you retain your tax records for a period of at least ____ years.

Please contact us/me immediately if you receive any notification from federal, state, or local taxing agencies regarding your tax returns. We/I appreciate this opportunity to be of service to you. Please contact us/me should you have any questions regarding the enclosed returns or if we/I can be of any further assistance.

Very truly yours,

(Preparer)

OPTIONAL PARAGRAPHS FOR INCLUSION IN TRANSMITTAL LETTERS

A) Estimated Tax Responsibilities for Certain Corporations

Your return for 19XX either reflected no taxable income or a short year, or you had taxable income of \$1,000,000 or more for any of the three previous years. Therefore, you cannot utilize the 100% of prior year tax safe harbor provisions in meeting your quarterly estimated tax responsibilities. Accordingly, you are required to make quarterly estimated tax payments equaling 100% of your current year tax liability. If there are any questions concerning the calculation of these quarterly payments, please contact us/me immediately.

B) Retirement Plan Contributions

1. For Individuals

We/I have reported (a) contribution(s) to your Individual Retirement Account(s) on the enclosed tax returns as follows:

(Taxpayer) _____	\$ _____
(Spouse) _____	\$ _____

If not already made, the contribution(s) must be made on or before April 15, 19XX.

We/I have reported (a) contribution(s) to your Keogh/SEP retirement plan(s) on the enclosed tax returns as follows:

(Keogh) _____	\$ _____
(SEP) _____	\$ _____

If not already made, the contribution(s) must be made on or before the date you timely file your return.

2. For Businesses

We/I have reported (a) contribution(s) to your qualified retirement plan(s) on the enclosed tax returns as follows:

(Profit Sharing Plan) _____	\$ _____
(Money Purchase Pension Plan) _____	\$ _____
(Defined Benefit Pension Plan) _____	\$ _____
(Target Benefit Pension Plan) _____	\$ _____
(Other) _____	\$ _____

If not already made, the contribution(s) must be made on or before the date you timely file your return.

C) Client Representation

Recent legislation specifically reinforces that you, the taxpayer, are responsible for the accuracy of your returns. Although we/I have been engaged to prepare your returns, you are ultimately responsible for them. We/I have prepared your returns using the information that you provided. We/I have not audited or independently verified the data you furnished, although we/I may have asked for further clarification on some of the information. Accordingly, you should examine the enclosed returns carefully before signing and filing them.

If there is anything on the returns that you do not understand, ask us/me to explain. It is important to ensure that the returns are true and accurate to the best of your knowledge.

NEW CLIENT WELCOME LETTER

(Date) _____

(Taxpayer) _____

(Address) _____

Dear (Taxpayer) _____:

Thank you for choosing our/my firm. We/I will work on your behalf to maintain the confidence you have in us/me by selecting our/my firm.

In order to compile a complete file, please provide copies of the following documents:

Select Items To Be Requested

- _____ From your corporate record book:
 - Articles of Incorporation and Bylaws
 - Minutes
 - Stock register
- _____ Partnership agreement
- _____ Depreciation schedules
- _____ Tax returns for _____, _____, and _____/the years ended _____, _____ and _____
- _____ Financial statements for the year(s) ended _____, _____, and _____.
- _____ Buy/sell agreement(s)
- _____ Employment agreement(s)
- _____ Lease agreement(s)
- _____ Loan agreement(s)
- _____ Tax elections and related approvals
- _____ Copies of taxing authority audit reports
- _____ Will
- _____ Trust agreement
- _____ _____
- _____ _____

Thanks again for choosing us/me to service your accounting, tax and related needs. We/I look forward to a long and mutually satisfying relationship. Should you have any questions or concerns regarding your account or our/my services, please contact us/me.

Sincerely,

(Preparer) _____

CLIENT REVIEW FOR ADDITIONAL SERVICES

These forms were designed to assist practitioners in providing more complete service to their clients and increase billings from their existing client base. It is anticipated that any individual working on the account may initiate the review as different levels of personnel are likely to provide differing perspectives. The procedure may be performed on an annual basis, perhaps in conjunction with the year-end, and may then be suspended to be addressed at a more convenient time of the year. The completed form may then be routed to the various personnel in charge of the areas for which additional services are being considered, as well as to the person in charge. The respective specialists may provide their comments to the partner in charge, or whoever is deemed applicable, to determine the appropriate action to be taken. A firm may appoint a business development committee to review the completed forms on a regular basis.

As a final matter, the practitioner may wish to consider color coding these forms to facilitate routing and access by staff.

INDIVIDUAL CLIENT REVIEW FOR ADDITIONAL SERVICES

CLIENT NAME/NUMBER _____

PERSON IN CHARGE _____ PREPARED BY _____ DATE _____

ROUTE TO: _____, _____, _____, _____, _____

The following services should be considered for this client: (check applicable items)

	<u>DISPOSITION/COMMENTS</u>	<u>CLEARED BY</u>
_____ Amend prior year returns - additions, deductions, carrybacks, etc.	_____	_____
_____ Cash/credit management	_____	_____
_____ Compensation and benefit planning	_____	_____
_____ Income and AMT tax planning	_____	_____
_____ Investment and insurance evaluation and planning	_____	_____
_____ Estate planning	_____	_____
_____ Liability and risk management	_____	_____
_____ Tax Attribute Maximization: - NOL planning	_____	_____
_____ - Review for available tax credits	_____	_____
_____ Retirement funding adequacy	_____	_____
_____ Children's education funding	_____	_____
_____ Other:		
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

BUSINESS CLIENT REVIEW FOR ADDITIONAL SERVICES

CLIENT NAME/NUMBER _____

PERSON IN CHARGE _____ PREPARED BY _____ DATE _____

ROUTE TO: _____, _____, _____, _____, _____

The following services should be considered for this client: (check applicable items)

	<u>DISPOSITION/COMMENTS</u>	<u>CLEARED BY</u>
_____ Amend prior year returns - additions, deductions, carrybacks, etc.	_____	_____
_____ Business/Strategic Planning	_____	_____
_____ Buy/sell agreements	_____	_____
_____ Cash/credit management	_____	_____
_____ Change in Accounting Method:		
_____ - Alternative methods to defer recognition of income	_____	_____
_____ - Alternative methods to accelerate expense recognition	_____	_____
_____ - Alternative methods to minimize AMT	_____	_____
_____ Enhance or change accounting system	_____	_____
_____ Change tax year	_____	_____
_____ Compensation and benefit planning:		
_____ - Retirement plans (retirement/401(k))	_____	_____
_____ - Deferred compensation plans	_____	_____
_____ - Flexible benefit plans	_____	_____
_____ - Medical reimbursement	_____	_____
_____ Computer Services:		
_____ - has no computer, may need one	_____	_____
_____ - has computer, may need I/C review	_____	_____
_____ - has computer, needs assistance	_____	_____
_____ - needs PC network or enhancements	_____	_____
_____ Disaster recovery planning	_____	_____
_____ Estate or succession planning	_____	_____
_____ Finance and banking relations	_____	_____
_____ Income tax planning	_____	_____
_____ State and Local Tax Planning:		
_____ - Income and franchise tax	_____	_____

BUSINESS CLIENT REVIEW FOR ADDITIONAL SERVICES

	<u>DISPOSITION/COMMENTS</u>	<u>CLEARED BY</u>
_____ - Ad valorem/property tax	_____	_____
_____ - sales and use taxes	_____	_____
_____ - Excise taxes and duties compliance review and planning	_____	_____
Tax Attribute Maximization:		
_____ - NOL planning	_____	_____
_____ - Review for available tax credits	_____	_____
_____ - Review for applicable economic development and other business promotion incentives	_____	_____
_____ MAS service - financial, marketing, operations, etc.	_____	_____
_____ Owner and/or executive retirement or financial planning	_____	_____
_____ Risk management	_____	_____
_____ Tax entity changes - incorporation, S election, liquidation, etc.	_____	_____
_____ Other:	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

CLIENT REVIEW COMMENTS

CLIENT _____

RETURN/PROJECT _____ TAX YEAR _____

REVIEWED BY _____ DATE COMPLETED _____

CLEARED BY _____ DATE COMPLETED _____

[illegible]

Page ____ of ____

TAX RESEARCH REQUEST AND RESULTS FORMS

These forms were developed to formalize tax research assignments, notify the personnel related to an account that a research project has been initiated, provide a framework for the assigned personnel, and serve as a means to monitor the status of the project. Routing the request to other personnel associated with the client may help to insure that all pertinent facts are provided to the assigned researcher. In addition, someone may have encountered the situation, or a similar circumstance, with another client and may be able to provide some valuable assistance regarding the question at hand. Practitioners may also choose to keep a file of completed request/results forms, indexed by Code Section or some other means, as an in-house reference source.

TAX RESEARCH REQUEST

CLIENT NAME/NUMBER _____

SUBJECT MATTER _____

REQUESTED BY _____ ASSIGNED TO _____

DATE OF REQUEST _____ DUE DATE _____ TIME BUDGET _____

FACTS:

QUESTION(S):

Page _____ of _____

TAX RESEARCH RESULTS

CLIENT NAME/NUMBER _____

SUBJECT MATTER _____

PREPARED BY _____ DATE _____

REVIEWED BY _____ DATE _____

ACTUAL TIME _____

FINDINGS: (Attach Research)

CONCLUSION(S):

Page _____ of _____

CARRYFORWARD SCHEDULE

Client Name/Number: _____

Carryforward to Period: _____ Tax Form: _____

CARRYFORWARD DEDUCTION AND CREDITS (CHECK IF APPLICABLE)

AMOUNT

___	Capital Loss Carryforward	\$	_____
___	Charitable Contributions Carryforward		_____
___	Net Operating Loss Carryforward - Regular		_____
___	Net Operating Loss Carryforward - AMT		_____
___	Investment Credit Carryforward		_____
___	WIN Credit Carryforward		_____
___	Job Tax Credit Carryforward		_____
___	Loss Carryforwards Attributable to at Risk Limitation Partnerships, S Corps., etc.)		_____
___	Investment Interest Expense Carryforward		_____
___	Carryforward of Office in Home Deductions		_____
___	Carryforward of Suspended Passive Losses and Credits		_____
___	Alternative Minimum Tax Credit		_____
___	Section 179 Amount Due to Income Limitations		_____
___	Foreign Tax Credit		_____
___	Other _____		_____
___	_____		_____
___	_____		_____

DEFERRED GAINS (CHECK IF APPLICABLE)

___	Installment Sales	_____
___	Income Pick-up from Short-Year S Corp., Partnership and Trust Returns	_____
___	Gain on Sale of Residence	_____
___	Cash to Accrual Method Adjustments	_____
___	Gain on Involuntary Conversion	_____
___	Uniform Capitalization Inventory Adjustment	_____
___	Recapture of Bad Debt Reserve	_____
___	Other _____	_____
___	_____	_____
___	_____	_____

COMMENTS AND EXPLANATIONS: _____

Prepared by: _____

Signature _____

Date _____

TAX PERMANENT FILE CONTENTS - INDIVIDUAL

- ___ Amended return schedule
- ___ Basis for mortgage interest computations
- ___ Buy/sell agreements
- ___ Client background data
- ___ Closing documents for purchase/sale of a residence
- ___ Contracts
- ___ Copies of gift/estate tax returns
- ___ Divorce decree(s)/Separation agreement(s)
- ___ Estate planning documents
- ___ Forms 2119 (gain on sale of a personal residence)
- ___ Powers of Attorney
- ___ Record of taxing authority audits
- ___ Trust documents
- ___ Wills
- ___ Qualified plan documents, if applicable
- ___ Form 8606 - nondeductible IRA contributions
- ___ _____
- ___ _____
- ___ _____

TAX PERMANENT FILE CONTENTS - BUSINESS ENTITIES

___	Amended return schedule
___	Annual minutes-continuing matters
___	Approval of fiscal year election
___	Approved S election/termination
___	Articles of incorporation/Partnership agreement
___	Automobile policies
___	Buy/sell agreements
___	By-laws
___	Client background data
___	Earnings and profits calculation
___	Employment/independent contractor agreements
___	Federal and state taxpayer identification numbers
___	Form 966 liquidation form
___	Fringe benefit information (i.e., medical reimbursement, education, deferred compensation, etc.)
___	Officer life insurance information
___	Qualified plan IRS determination letter and Summary Plan Description
___	Record of taxing authority audits
___	S election acceptance letter
___	Statement of assets transferred (sections 351/751)
___	Inventory information (i.e., LIFO layers, constant unit values, § 263A formulas, etc.)
___	Basis information (i.e., long-term investments, land, etc.)
___	Accounting methods and elections
___	Consolidation and elimination history
___	_____
___	_____

TAX PERMANENT FILE CONTENTS CARRYFORWARD SCHEDULES

___ Alternative minimum tax credit carryforwards
___ Basis computation for S corporations/Partnerships
___ Basis investments (including dividend reinvestments/stock dividends)
___ "Built-in gain" valuation workpapers
___ Business credits
___ Capital losses
___ Contributions
___ Data diskettes
___ Depreciation schedules
___ Excess home office expense
___ Excess section 179 deduction
___ Installment sales schedules
___ Loan amortization schedules and related notes
___ Net operating loss and AMT net operating loss carryforwards
___ Non-deductible IRAs
___ Section 1231 gains/losses
___ Suspended passive loss/credits carryforwards
___ Unamortized mortgage points schedule

SIMPLIFIED EMPLOYEE PENSION PLAN WORKSHEET

Taxpayer's Name: _____

Simplified Employee Pension Plan (SEP) contribution is based on the earned income of the self-employed individual. Earned income for this computation is determined after the deduction for half of the self-employment tax and a reduction for the self-employed participant's deductible contribution to the SEP.

Necessary Data:

Contribution % _____ (Maximum of 15%) (R)

Schedule C Business Income \$ _____ (C)

Schedule F Profit from Farming \$ _____ (F)

One-half self-employment tax \$ _____ (S)

To compute the owners' SEP contribution use the following formula:

$$\left(\frac{R}{1 + R} \right) \text{ times } (C + F - S)$$

NOTE:

If there are eligible employees, their SEP contribution must be computed using the contribution rate shown above and deducted on Schedules C or F before computing the SEP deduction for the proprietor.

TAX RETURN ROUTING SCHEDULE

(To be bound with _____)

CLIENT NAME/NUMBER _____ TAX YEAR _____

TYPE OF RETURN _____ STATE/LOCAL RETURN(S) REQUESTED _____

DUE DATE _____ EXTENDED DUE DATE _____

DATE DATA RECEIVED FROM CLIENT _____ TARGET COMPLETION DATE _____

IN-CHARGE _____ SIGNER _____ ENGAGEMENT LETTER SIGNED _____

	<u>Assigned to/ Target Date</u>	<u>Initial/Date</u>	<u>Actual Time/Cost</u>	<u>Budget Time/Cost</u>
Client Interview	_____	_____	_____	_____
Preparation	_____	_____	_____	_____
Update Permanent File	_____	_____	_____	_____
Math Check	_____	_____	_____	_____
Forms Input Review	_____	_____	_____	_____
To Computer Processing	_____	_____	_____	_____
Data Entry/Typing	_____	_____	_____	_____
Returned from Computer Processing	_____	_____	_____	_____
Forms Output Review	_____	_____	_____	_____
Technical Review	_____	_____	_____	_____
Update Carryforward Schedule	_____	_____	_____	_____
Assembly	_____	_____	_____	_____
Signature	_____	_____	_____	_____
Mail/Pick-Up/Delivery (Circle One)	_____	_____	_____	_____
Estimate Reminder Log Updated	_____	_____	_____	_____
Total			=====	=====

<u>BILLING</u>	<u>Time Charges</u>	<u>Computer Charges</u>	<u>Out-of-Pocket</u>	<u>Total</u>	<u>Billing</u>
Prior Year	_____	_____	_____	_____	_____
Current Year	_____	_____	_____	_____	_____

=====

SPECIAL INSTRUCTIONS/BUDGET EXCEPTIONS:

TAX RETURN GUIDE SHEET

(To be bound with _____)

Taxpayer _____

Taxable Year(s) _____

Return _____

Number of additional copies _____

Additional copies to:

Name _____

Name _____

Address _____

Address _____

Attach Extension: Yes _____ No _____

Number of Forms W-2 _____ Number of other withholding statements _____

Other attachments to return:

_____ Federal return to state return

Other accountant information to be furnished to client: (X=Xerox, C=Computer printed)

- _____ Income Tax Summary
- _____ Carryover schedules
- _____ Partnership/S Corporation/Fiduciary/K-1 Reconciliations
- _____ Passive Activity Loss Worksheets
- _____ Current Year Depreciation Schedules
- _____ Next Year Depreciation Schedules
- _____ Adjusted Trial Balance
- _____ Federal Tax Trial Balance
- _____ Adjusting Journal Entries
- _____ Reclassifying Journal Entries
- _____ Federal Tax Journal Entries
- _____ General Ledger
- _____ General Journal Entries
- _____ Cash Disbursements
- _____ Cash Receipts
- _____ Other (description and workpaper references)

Other processing instructions:

_____ Return client data

Final release:

The return described above was signed and released by me after all pending items were cleared, all appropriate levels of review were signed off, and all processing steps completed.

Signature _____

Date _____

VEHICLE RELATED GUIDES

EMPLOYER POLICIES REGARDING USE OF COMPANY VEHICLES

Three policies have been included that may be provided to clients as examples. Policies 1 and 2 are optional for an employer. Policy 3 is required in some form by all employers providing company owned personal use vehicles. The policies should be reviewed to determine if there are conflicts with state or local laws.

EMPLOYEE REPRESENTATION REGARDING USE OF COMPANY VEHICLE AND WORKSHEET TO CALCULATE INCOME FROM PERSONAL USE OF COMPANY VEHICLE

The IRS requires the value of the personal use of employer provided vehicles to be included in the compensation of the employee if the employee does not reimburse the employer. Forms are included for the employer to collect the necessary data from the employee and calculate the value of the personal use.

WORKSHEET TO CALCULATE "INCLUSION AMOUNT" FOR LEASED VEHICLES

The IRS requires lessees of luxury cars to calculate an "inclusion amount" to be included in their gross income. This inclusion amount must be considered by taxpayers who have leased a vehicle for a term of 30 days or more. By means of the inclusion amount, the law attempts to limit the taxpayer's lease payment deductions to the amount that would have been deductible under the limited depreciation rules had the taxpayer purchased the car. Enclosed are various worksheets to calculate the amount includible in income by the lessee for vehicles leased after 1986. Select the appropriate worksheet based on the lease date of the vehicle.

SAMPLE AUTOMOBILE USAGE POLICIES

1. POLICY PROHIBITING ALL PERSONAL USE OF COMPANY VEHICLES

Management has adopted the following policy regarding personal use of Company owned vehicles:

Vehicles owned or leased by this Company are to be used solely for Company business. There shall be no personal use of the vehicles (including commuting to and from work). Individuals driving Company vehicles may have occasions where an incidental stop is necessary between business stops. Such use shall not be considered to be in violation of this policy.

The Company requires that vehicles not in use shall be parked in designated areas on the Company premises. No personal items are to be stored in the vehicles. Company materials and supplies are to be secured in the trunk, lock boxes or within the Company offices.

Keys are to be returned to _____ upon the close of business each day.

SAMPLE AUTOMOBILE USAGE POLICIES

2. POLICY PROHIBITING ALL PERSONAL USE OF COMPANY VEHICLES EXCEPT COMMUTING

Management has adopted the following policy regarding personal use of Company owned vehicles:

For business reasons, certain employees have been designated to drive a Company owned vehicle to and from their residence. This shall be the only authorized personal use of the vehicle. Individuals driving Company vehicles may have occasions where an incidental stop is necessary between business stops. Such use shall not be considered to be in violation of this policy.

The Company requires that no personal items other than incidentals be stored in the vehicle. The vehicle is to be locked each night with work articles stored either in the lock box or trunk during times when the vehicle is not in use.

The Company will compute a daily value for the commuting which will be included in the employee's W-2 at the end of the calendar year. Such amount will be the minimum allowed by federal income tax laws.

Note: Internal Revenue Service regulations require the Company to maintain evidence which would enable the IRS to determine whether use of the vehicle is in accordance with policy maintained by the Company.

SAMPLE AUTOMOBILE USAGE POLICIES

3. POLICY REGARDING CUT-OFF DATE TO CALCULATE THE VALUE OF PERSONAL USE OF COMPANY OWNED VEHICLES

Management has adopted the following policy regarding computation of the taxable value of the personal use of Company owned vehicles:

The personal use of Company vehicles will be computed for the twelve months ending _____ (October 31, November 30 or December 31).

Annually, the Company requires you to provide a complete accounting of the personal use of the vehicle as of _____. The taxable value of the personal use will be computed using the least costly method allowable by tax law.

This income will be considered paid as of _____ and federal, state (if appropriate) and Social Security/Medicare* withholding will be deducted from your _____ pay check. - or

The taxable value and related withholding amounts will be reflected on your W-2 at year-end.

Please address your questions to _____.

- * The company may elect to withhold only Social Security/Medicare. If so the paragraph should read as follows:

This income will be considered paid as of _____ and Social Security/Medicare withholding will be deducted from your _____ pay check.

**EMPLOYEE REPRESENTATION REGARDING
USE OF COMPANY VEHICLE**

The IRS requires employers to provide certain information on their tax return with respect to the vehicles provided to employees. This information is also used to calculate the amount of the fringe benefit to be included in the employee's W-2 income.

The IRS generally requires that written records be maintained to document the business use of vehicles. Since the company policy requires employees to maintain the detailed records, please provide answers to the following questions. If you were provided more than one vehicle that was used during the year, you need to prepare a separate statement for each vehicle.

The completed form must be returned no later than _____ or 100% of the value of the use of the vehicle will be included in your W-2 income. (date)

Description of vehicle _____

Reporting period from _____ to _____

Odometer reading: Beginning _____ Ending _____

Employee Representation

- | | | | |
|-----|--|-------|----|
| (1) | Was the vehicle available for your personal use during off-duty hours? | YES | NO |
| (2) | Did you have another vehicle available for your personal use (this includes a car you own personally)? | YES | NO |
| (3) | Are you an officer or 1% owner of the business? | YES | NO |
| (4) | How many commuting round trips did you make in this vehicle? | _____ | |
| (5) | For the reporting period specified above, please provide the number of miles for each of the following categories: | | |
| | Total commuting miles | _____ | |
| | Total other personal (non-commuting) miles | _____ | |
| | Total personal miles | _____ | |
| | Total business miles | _____ | |
| | TOTAL MILES | _____ | |
| (6) | Did the employer pay the cost of fuel consumed by this vehicle? | YES | NO |

(EMPLOYEE SIGNATURE)

(DATE)

**WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE**

**EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE
INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE
FOR CALENDAR YEAR 1996**

EMPLOYEE: _____

DESCRIPTION OF VEHICLE: _____

DATE VEHICLE FIRST MADE AVAILABLE TO ANY EMPLOYEE: _____

DATE VEHICLE FIRST MADE AVAILABLE TO THIS EMPLOYEE: _____

Select one method (note limitations on methods II and III)

METHOD I - ANNUAL LEASE VALUE METHOD (For Autos Available 30 Days or More)

Fair market value of vehicle (to be redetermined at the beginning of the fifth year and every four years thereafter).	\$ _____
Annual lease value, per attached chart	\$ _____ ⁽¹⁾
Enter number of days during the year that the vehicle was available	x _____
Divide by number of days in tax year	÷ _____
Prorated annual lease value	_____
Personal use % (personal/total miles, per statement from employee)	x _____%
Personal annual lease value	\$ _____
If fuel is provided by employer, enter personal miles _____ x _____ ⁽²⁾	+ _____
Personal use taxable income	\$ _____

⁽¹⁾For autos available for 7 days or less, multiply the annual lease value by 4. If the availability is more than 7 days, but less than 30, the taxpayer may elect to use the annual lease value without the 4 multiplier.

⁽²⁾If fuel is provided "in kind," the fair market value may be determined based on all facts and circumstances or, alternatively, at 5-1/2 cents per mile if auto usage is within the U.S. Canada, and Mexico. Generally, where fuel is purchased and charged to the employer, the actual cost or reimbursement should be used. If employers with a fleet of 20 or more vehicles, reimburse or allow employees to charge fuel cost, the fleet-average cents per mile may be used. If the fleet employer determines that actual cost or fleet average methods are unreasonable administrative burdens, the 5-1/2 cents per mile may be used.

**WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE**

**EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE
INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE FOR
CALENDAR YEAR 1996**

METHOD II - STANDARD MILEAGE RATE METHOD

Generally, in order to qualify to use the cents-per-mile method, the vehicle must: (1) be expected to be regularly used in the employer's business throughout the calendar year, (2) be driven at least 10,000 miles per year, and (3) have a fair market value of \$14,600 or less. Once this method is adopted for a particular vehicle, it must be continued until the vehicle no longer qualifies.

Enter personal miles	_____ x \$0.31 =	\$ _____
If fuel is NOT provided by the employer enter personal miles	_____ x \$0.055 =	(_____)
Personal use taxable income		\$ <u> </u>

METHOD III - SPECIAL COMMUTING METHOD

This method may only be used for vehicles covered by a written policy that allows commuting but no other personal use. DO NOT USE if employee is a 1% or more owner, an officer with compensation of \$50,000 or more, or an individual with compensation equaling or exceeding \$100,000.

Number of commuting round trips made	_____
Value per round trip	x <u> \$ 3.00 </u>
Personal use taxable income	\$ <u> </u>

WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE

ANNUAL LEASE VALUE TABLE

<u>AUTOMOBILE</u> <u>FAIR MARKET</u> <u>VALUE</u>	<u>ANNUAL</u> <u>LEASE</u> <u>VALUE</u>	<u>AUTOMOBILE</u> <u>FAIR MARKET</u> <u>VALUE</u>	<u>ANNUAL</u> <u>LEASE</u> <u>VALUE</u>
\$ 0- 999	600	22,000-22,999	6,100
1,000- 1,999	850	23,000-23,999	6,350
2,000- 2,999	1,100	24,000-24,999	6,600
3,000- 3,999	1,350	25,000-25,999	6,850
4,000- 4,999	1,600	26,000-27,999	7,250
5,000- 5,999	1,850	28,000-29,999	7,750
6,000- 6,999	2,100	30,000-31,999	8,250
7,000- 7,999	2,350	32,000-33,999	8,750
8,000- 8,999	2,600	34,000-35,999	9,250
9,000- 9,999	2,850	36,000-37,999	9,750
10,000-10,999	3,100	38,000-39,999	10,250
11,000-11,999	3,350	40,000-41,999	10,750
12,000-12,999	3,600	42,000-43,999	11,250
13,000-13,999	3,850	44,000-45,999	11,750
14,000-14,999	4,100	46,000-47,999	12,250
15,000-15,999	4,350	48,000-49,999	12,750
16,000-16,999	4,600	50,000-51,999	13,250
17,000-17,999	4,850	52,000-53,999	13,750
18,000-18,999	5,100	54,000-55,999	14,250
19,000-19,999	5,350	56,000-57,999	14,750
20,000-20,999	5,600	58,000-59,999	15,250
21,000-21,999	5,850		

For vehicles having a fair market value in excess of \$59,999, the Annual Lease Value is equal to:
(.25 x automobile fair market value) + \$500.

LEASED VEHICLES
WORKSHEET TO CALCULATE INCLUSION AMOUNT

Description of vehicle: _____

Date of lease: _____

Lease term: _____

Fair market value of vehicle at inception of lease: _____

Dollar amount per attached tables. (Select the appropriate table based on the inception date of the lease.) \$ _____⁽¹⁾

Enter number of days during the year that the vehicle was leased. X _____

Divide by number of days in tax year. ÷ _____

Prorated dollar amount. \$ _____

Business use % (business/total miles). X _____ %⁽²⁾

Prorated inclusion amount. \$ _____

⁽¹⁾The dollar amount for the preceding year is used for the last tax year of the lease.

⁽²⁾Use 100% if all expenses are deducted by the employer and the personal use value is added to the employee's income.

**Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1991**

Fair Market Value of Automobile		Tax Year During Lease *					5th and Later
Over	Not Over	1st	2nd	3rd	4th	5th	
13400	13700	2	4	6	6	6	6
13700	14000	5	10	16	18	18	18
14000	14300	8	17	25	29	32	32
14300	14600	11	23	35	41	45	45
14600	14900	14	30	44	52	58	58
14900	15200	17	36	54	64	71	71
15200	15500	20	43	63	75	85	85
15500	15800	23	49	73	87	98	98
15800	16100	26	55	83	98	112	112
16100	16400	29	62	92	110	124	124
16400	16700	32	68	102	121	138	138
16700	17000	35	75	111	133	151	151
17000	17500	39	83	125	147	169	169
17500	18000	44	94	140	167	191	191
18000	18500	49	105	156	186	213	213
18500	19000	54	116	172	205	235	235
19000	19500	59	126	189	224	257	257
19500	20000	63	138	204	243	279	279
20000	20500	68	148	220	263	301	301
20500	21000	73	159	236	282	323	323
21000	21500	78	170	252	301	345	345
21500	22000	83	180	269	319	368	368
22000	23000	90	197	292	348	401	401
23000	24000	100	218	324	387	445	445
24000	25000	110	240	356	425	489	489
25000	26000	120	261	388	463	534	534
26000	27000	130	283	419	502	578	578
27000	28000	140	304	452	540	622	622
28000	29000	149	326	484	578	666	666
29000	30000	159	347	516	617	710	710
30000	31000	169	369	547	655	755	755
31000	32000	179	390	580	693	799	799
32000	33000	189	412	611	732	843	843
33000	34000	199	433	644	769	888	888
34000	35000	208	455	676	808	931	931
35000	36000	218	477	707	846	976	976
36000	37000	228	498	739	885	1020	1020
37000	38000	238	519	772	923	1064	1064
38000	39000	248	541	803	961	1109	1109
39000	40000	258	562	835	1000	1153	1153
40000	41000	267	584	867	1038	1197	1197
41000	42000	277	606	899	1076	1241	1241
42000	43000	287	627	931	1115	1285	1285
43000	44000	307	670	995	1191	1374	1374

* For the last tax year of the lease, use the dollar amount for the preceding year

Fair Market Value of Automobile		Tax Year During Lease *					5th and Later
Over	Not Over	1st	2nd	3rd	4th	5th	
44000	45000	317	692	1026	1230	1418	1418
45000	46000	326	714	1058	1268	1462	1462
46000	47000	336	735	1091	1306	1506	1506
47000	48000	346	756	1123	1344	1551	1551
48000	49000	356	778	1154	1383	1595	1595
49000	50000	366	799	1187	1421	1639	1639
50000	51000	376	821	1218	1459	1684	1684
51000	52000	385	843	1250	1498	1727	1727
52000	53000	395	864	1282	1536	1772	1772
53000	54000	405	886	1314	1574	1816	1816
54000	55000	425	929	1378	1650	1905	1905
55000	56000	435	950	1410	1689	1949	1949
56000	57000	444	972	1442	1727	1993	1993
57000	60000	454	993	1474	1766	2037	2037
60000	62000	469	1026	1521	1824	2103	2103
62000	64000	489	1068	1586	1900	2192	2192
64000	66000	508	1112	1649	1977	2280	2280
66000	68000	528	1155	1713	2053	2369	2369
68000	70000	548	1198	1777	2130	2457	2457
70000	72000	567	1241	1841	2206	2546	2546
72000	74000	587	1284	1905	2283	2634	2634
74000	76000	607	1327	1969	2359	2723	2723
76000	78000	626	1370	2033	2436	2811	2811
78000	80000	646	1413	2097	2512	2900	2900
80000	85000	680	1489	2208	2647	3054	3054
85000	90000	730	1596	2368	2838	3276	3276
90000	95000	779	1704	2528	3029	3497	3497
95000	100000	828	1812	2687	3221	3718	3718
100000	110000	902	1973	2927	3508	4049	4049
110000	120000	1000	2188	3247	3891	4492	4492
120000	130000	1098	2404	3566	4274	4934	4934
130000	140000	1197	2619	3885	4658	5375	5375
140000	150000	1295	2834	4205	5041	5817	5817
150000	160000	1393	3050	4524	5424	6259	6259
160000	170000	1492	3265	4844	5806	6702	6702
170000	180000	1590	3480	5164	6189	7144	7144
180000	190000	1688	3696	5483	6572	7586	7586
190000	200000	1787	3911	5802	6955	8029	8029
200000	210000	1885	4126	6122	7338	8471	8471
210000	220000	1983	4342	6441	7721	8913	8913
220000	230000	2081	4557	6761	8104	9355	9355
230000	240000	2180	4772	7080	8487	9798	9798
240000	250000	2278	4988	7399	8870	10240	10240

Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1992

Fair Market Value of Automobile		Tax Year During Lease *					5th and Later
		1st	2nd	3rd	4th		
Over	Not Over	0	2	2	2	4	
13700	14000	3	7	10	13	15	
14000	14300	5	13	18	23	26	
14300	14600	8	18	27	32	38	
14600	14900	11	23	35	43	49	
14900	15200	13	29	44	52	61	
15200	15500	16	35	51	62	72	
15500	15800	18	40	60	72	84	
15800	16100	21	46	68	82	95	
16100	16400	23	52	76	92	106	
16400	16700	26	57	84	102	118	
16700	17000	29	65	95	115	133	
17000	17500	33	74	109	132	152	
17500	18000	38	83	123	148	171	
18000	18500	42	92	137	164	190	
18500	19000	46	102	150	181	209	
19000	19500	50	111	164	198	228	
19500	20000	55	120	178	214	247	
20000	20500	59	129	192	230	267	
20500	21000	63	139	205	247	285	
21000	21500	67	148	219	263	305	
21500	22000	74	162	239	288	333	
22000	23000	82	180	268	321	371	
23000	24000	90	199	295	354	409	
24000	25000	99	217	323	387	447	
25000	26000	107	236	350	420	485	
26000	27000	116	254	378	453	523	
27000	28000	124	273	405	486	561	
28000	29000	133	291	433	518	600	
29000	30000	141	310	460	552	637	
30000	31000	150	328	488	584	676	
31000	32000	158	347	515	618	713	
32000	33000	167	365	543	650	752	
33000	34000	175	384	570	684	789	
34000	35000	184	402	598	716	828	
35000	36000	192	421	625	750	865	
36000	37000	200	440	652	783	904	
37000	38000	209	458	680	816	942	
38000	39000	217	477	707	849	980	
39000	40000	226	495	735	882	1018	
40000	41000	234	514	762	915	1056	
41000	42000	243	532	790	948	1094	
42000	43000	251	551	817	981	1132	
43000	44000	260	569	845	1013	1171	
44000	45000						

*For the last tax year of the lease, use the dollar amount for the preceding year.

Fair Market Value of Automobile		Tax Year During Lease *					5th and Later
		1st	2nd	3rd	4th		
Over	Not Over	268	588	872	1047	1208	
45000	46000	277	606	900	1079	1247	
46000	47000	285	625	927	1113	1284	
47000	48000	293	644	955	1145	1323	
48000	49000	302	662	982	1179	1360	
49000	50000	310	681	1010	1211	1399	
50000	51000	319	699	1037	1245	1436	
51000	52000	327	718	1065	1277	1475	
52000	53000	336	736	1092	1311	1513	
53000	54000	344	755	1120	1343	1551	
54000	55000	353	773	1147	1377	1589	
55000	56000	361	792	1175	1409	1627	
56000	57000	370	810	1202	1442	1666	
57000	58000	378	829	1230	1475	1703	
58000	59000	386	848	1257	1508	1741	
59000	60000	399	875	1299	1557	1799	
60000	62000	416	912	1354	1623	1875	
62000	64000	433	949	1409	1689	1951	
64000	66000	450	987	1463	1755	2027	
66000	68000	467	1024	1518	1821	2103	
68000	70000	484	1061	1573	1887	2179	
70000	72000	501	1098	1628	1953	2255	
72000	74000	518	1135	1683	2019	2331	
74000	76000	535	1172	1738	2085	2407	
76000	78000	551	1209	1794	2150	2484	
78000	80000	581	1274	1889	2267	2617	
80000	85000	623	1367	2027	2431	2807	
85000	90000	666	1459	2165	2595	2998	
90000	95000	708	1552	2302	2761	3188	
95000	100000	771	1691	2508	3008	3474	
100000	110000	856	1876	2783	3338	3854	
110000	120000	940	2062	3058	3668	4234	
120000	130000	1025	2247	3333	3997	4616	
130000	140000	1110	2432	3608	4327	4996	
140000	150000	1194	2618	3883	4656	5377	
150000	160000	1279	2803	4158	4986	5758	
160000	170000	1363	2988	4434	5316	6138	
170000	180000	1448	3174	4708	5645	6519	
180000	190000	1532	3359	4983	5976	6899	
190000	200000	1617	3544	5258	6305	7280	
200000	210000	1702	3729	5533	6635	7661	
210000	220000	1786	3915	5808	6965	8041	
220000	230000	1871	4100	6083	7294	8422	
230000	240000	1955	4286	6358	7624	8802	
240000	250000						

**Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1993**

Fair Market Value of Automobile		Tax Year During Lease *				
		1st	2nd	3rd	4th	5th and Later
Over	Not Over					
14300	14600	1	1	2	2	3
14600	14900	3	5	7	9	9
14900	15200	4	9	13	15	17
15200	15500	6	13	18	22	25
15500	15800	8	16	24	29	32
15800	16100	9	20	30	35	40
16100	16400	11	24	35	42	48
16400	16700	13	27	41	49	55
16700	17000	14	32	46	55	63
17000	17500	17	36	54	64	73
17500	18000	20	42	63	75	87
18000	18500	22	49	72	86	99
18500	19000	25	55	82	97	112
19000	19500	28	61	91	108	125
19500	20000	31	67	100	120	137
20000	20500	34	74	109	130	150
20500	21000	37	80	118	142	163
21000	21500	39	86	128	153	175
21500	22000	42	92	138	163	189
22000	23000	47	101	151	181	207
23000	24000	52	114	170	202	233
24000	25000	58	127	187	225	259
25000	26000	64	139	206	247	285
26000	27000	69	152	224	270	310
27000	28000	75	164	243	292	335
28000	29000	81	176	262	313	362
29000	30000	86	189	280	336	387
30000	31000	92	201	299	358	412
31000	32000	98	214	317	380	438
32000	33000	103	226	336	402	464
33000	34000	109	239	354	424	490
34000	35000	115	251	373	446	515
35000	36000	120	264	391	469	540
36000	37000	126	276	410	491	566
37000	38000	132	288	429	513	591
38000	39000	137	301	447	535	617
39000	40000	143	314	465	557	643
40000	41000	149	326	484	579	669
41000	42000	154	339	502	601	695
42000	43000	160	351	521	623	720
43000	44000	166	363	539	646	746
44000	45000	171	376	558	668	771
45000	46000	177	388	577	690	796

*For the last tax year of the lease, use the dollar amount for the preceding year.

Fair Market Value of Automobile		Tax Year During Lease *				
		1st	2nd	3rd	4th	5th and Later
Over	Not Over					
46000	47000	183	401	594	713	822
47000	48000	189	413	613	735	847
48000	49000	194	426	631	757	874
49000	50000	200	438	650	779	899
50000	51000	206	450	669	801	925
51000	52000	211	463	687	824	950
52000	53000	217	475	706	846	975
53000	54000	223	488	724	867	1002
54000	55000	228	501	742	890	1027
55000	56000	234	513	761	912	1052
56000	57000	240	525	780	934	1078
57000	58000	245	538	798	956	1104
58000	59000	251	550	817	978	1130
59000	60000	257	563	835	1000	1155
60000	62000	265	581	863	1034	1194
62000	64000	277	606	900	1078	1245
64000	66000	288	631	937	1123	1295
66000	68000	299	656	974	1167	1347
68000	70000	311	681	1011	1211	1398
70000	72000	322	706	1048	1255	1450
72000	74000	333	731	1085	1300	1500
74000	76000	345	756	1121	1345	1551
76000	78000	356	781	1158	1389	1603
78000	80000	367	806	1195	1434	1654
80000	85000	387	849	1261	1510	1744
85000	90000	416	911	1353	1622	1871
90000	95000	444	974	1445	1733	1999
95000	100000	472	1036	1538	1843	2128
100000	110000	515	1130	1676	2010	2319
110000	120000	572	1254	1861	2232	2575
120000	130000	629	1379	2046	2453	2831
130000	140000	685	1504	2231	2674	3088
140000	150000	742	1628	2416	2896	3344
150000	160000	799	1753	2600	3119	3599
160000	170000	856	1877	2786	3340	3855
170000	180000	912	2002	2971	3561	4112
180000	190000	969	2127	3155	3783	4368
190000	200000	1026	2251	3340	4006	4623
200000	210000	1083	2376	3525	4227	4879
210000	220000	1140	2500	3710	4449	5135
220000	230000	1196	2625	3895	4670	5392
230000	240000	1253	2749	4081	4892	5647
240000	250000	1310	2874	4265	5114	5903

Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1994

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
14600	14900	0	1	1	2	2
14900	15200	2	5	6	9	11
15200	15500	4	9	14	17	20
15500	15800	6	14	21	25	30
15800	16100	8	19	27	34	39
16100	16400	10	24	34	42	49
16400	16700	12	28	41	51	58
16700	17000	14	33	48	59	68
17000	17500	17	39	57	70	81
17500	18000	21	47	68	84	97
18000	18500	24	55	80	97	113
18500	19000	28	62	92	111	129
19000	19500	31	70	104	124	145
19500	20000	35	78	115	138	161
20000	20500	39	85	127	152	176
20500	21000	42	93	138	166	193
21000	21500	46	101	149	180	208
21500	22000	49	109	161	193	225
22000	23000	54	121	178	214	248
23000	24000	62	136	201	242	280
24000	25000	69	151	224	270	312
25000	26000	76	167	247	297	344
26000	27000	83	182	270	325	376
27000	28000	90	198	293	352	408
28000	29000	97	213	317	379	440
29000	30000	104	229	339	408	471
30000	31000	111	244	363	435	503
31000	32000	118	260	385	463	535
32000	33000	125	276	408	490	567
33000	34000	132	291	431	518	599
34000	35000	139	307	454	545	631
35000	36000	146	322	478	573	662
36000	37000	153	338	500	601	694
37000	38000	161	353	523	628	726
38000	39000	168	368	547	656	757
39000	40000	175	384	569	684	790
40000	41000	182	399	593	711	822
41000	42000	189	415	615	739	854
42000	43000	196	431	638	766	886
43000	44000	203	446	661	794	918
44000	45000	210	462	684	821	950
45000	46000	217	477	708	849	981
46000	47000	224	493	730	877	1013

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
47000	48000	231	508	754	904	1045
48000	49000	238	524	776	932	1077
49000	50000	245	539	800	959	1109
50000	51000	252	555	822	987	1141
51000	52000	260	570	845	1015	1172
52000	53000	267	585	869	1042	1204
53000	54000	274	601	892	1069	1236
54000	55000	281	617	914	1097	1268
55000	56000	288	632	938	1125	1299
56000	57000	295	648	960	1153	1331
57000	58000	302	663	984	1180	1363
58000	59000	309	679	1006	1208	1395
59000	60000	316	694	1030	1235	1427
60000	62000	327	717	1065	1276	1475
62000	64000	341	748	1111	1332	1538
64000	66000	355	780	1156	1387	1602
66000	68000	369	811	1202	1442	1666
68000	70000	383	842	1248	1497	1730
70000	72000	397	873	1294	1553	1793
72000	74000	412	903	1341	1608	1857
74000	76000	428	935	1386	1663	1921
76000	78000	440	966	1432	1718	1985
78000	80000	454	997	1478	1774	2048
80000	85000	479	1051	1559	1870	2160
85000	90000	514	1129	1674	2008	2319
90000	95000	550	1206	1789	2146	2478
95000	100000	585	1284	1904	2284	2637
100000	110000	638	1400	2077	2491	2876
110000	120000	709	1555	2307	2767	3195
120000	130000	779	1710	2537	3043	3514
130000	140000	850	1865	2767	3319	3833
140000	150000	921	2020	2997	3595	4151
150000	160000	992	2175	3228	3870	4470
160000	170000	1062	2331	3457	4147	4788
170000	180000	1133	2486	3687	4423	5107
180000	190000	1204	2641	3917	4699	5425
190000	200000	1274	2796	4148	4974	5745
200000	210000	1345	2951	4378	5250	6063
210000	220000	1416	3106	4608	5527	6381
220000	230000	1487	3261	4838	5803	6699
230000	240000	1557	3416	5069	6078	7019
240000	250000	1628	3571	5299	6354	7337

*For the last tax year of the lease, use the dollar amount for the preceding year.

**Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1995**

Fair Market Value of Automobile		Tax Year During Lease *					Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later	Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$15,500	\$15,800	4	8	11	13	14	48,000	49,000	346	759	1,124	1,347	1,536
15,800	16,100	7	15	21	25	28	49,000	50,000	357	781	1,158	1,388	1,603
16,100	16,400	10	22	31	37	43	50,000	51,000	367	804	1,192	1,429	1,649
16,400	16,700	13	28	42	50	56	51,000	52,000	378	827	1,226	1,469	1,696
16,700	17,000	16	35	52	62	71	52,000	53,000	388	850	1,260	1,510	1,743
17,000	17,500	20	45	65	78	89	53,000	54,000	399	872	1,294	1,551	1,790
17,500	18,000	26	56	82	98	113	54,000	55,000	409	895	1,328	1,591	1,837
18,000	18,500	31	67	99	119	136	55,000	56,000	419	919	1,361	1,632	1,884
18,500	19,000	36	79	116	139	159	56,000	57,000	430	941	1,395	1,673	1,931
19,000	19,500	41	90	133	159	184	57,000	58,000	440	964	1,429	1,714	1,977
19,500	20,000	46	102	150	179	207	58,000	59,000	451	987	1,463	1,754	2,024
20,000	20,500	52	113	167	200	230	59,000	60,000	461	1,010	1,497	1,794	2,072
20,500	21,000	57	124	184	220	254	60,000	62,000	477	1,044	1,548	1,855	2,142
21,000	21,500	62	136	201	240	277	62,000	64,000	498	1,089	1,616	1,937	2,235
21,500	22,000	67	147	218	261	301	64,000	66,000	519	1,135	1,683	2,018	2,330
22,000	23,000	75	164	244	291	336	66,000	68,000	539	1,181	1,751	2,100	2,423
23,000	24,000	86	187	277	332	383	68,000	70,000	560	1,227	1,819	2,180	2,517
24,000	25,000	96	210	311	373	429	70,000	72,000	581	1,272	1,887	2,262	2,611
25,000	26,000	106	233	345	413	477	72,000	74,000	602	1,318	1,955	2,343	2,704
26,000	27,000	117	256	378	454	524	74,000	76,000	623	1,364	2,022	2,424	2,799
27,000	28,000	127	279	412	495	570	76,000	78,000	644	1,409	2,090	2,506	2,892
28,000	29,000	138	301	447	535	617	78,000	80,000	665	1,455	2,158	2,586	2,986
29,000	30,000	148	324	481	575	665	80,000	85,000	701	1,535	2,277	2,729	3,150
30,000	31,000	159	347	514	616	711	85,000	90,000	753	1,650	2,445	2,932	3,385
31,000	32,000	169	370	548	657	758	90,000	95,000	806	1,763	2,616	3,135	3,619
32,000	33,000	179	393	582	698	804	95,000	100,000	858	1,878	2,784	3,339	3,853
33,000	34,000	190	416	616	738	851	100,000	110,000	936	2,049	3,039	3,643	4,206
34,000	35,000	200	439	650	778	899	110,000	120,000	1,040	2,278	3,377	4,050	4,674
35,000	36,000	211	461	684	819	946	120,000	130,000	1,145	2,506	3,716	4,456	5,144
36,000	37,000	221	484	718	860	992	130,000	140,000	1,249	2,735	4,055	4,862	5,613
37,000	38,000	232	507	751	901	1,039	140,000	150,000	1,353	2,963	4,394	5,269	6,082
38,000	39,000	242	530	785	942	1,086	150,000	160,000	1,458	3,191	4,733	5,675	6,551
39,000	40,000	253	552	820	982	1,133	160,000	170,000	1,562	3,420	5,072	6,081	7,020
40,000	41,000	263	576	853	1,022	1,180	170,000	180,000	1,666	3,649	5,410	6,488	7,489
41,000	42,000	273	599	887	1,063	1,227	180,000	190,000	1,771	3,877	5,749	6,894	7,958
42,000	43,000	284	621	921	1,104	1,274	190,000	200,000	1,875	4,105	6,089	7,300	8,427
43,000	44,000	294	644	955	1,145	1,320	200,000	210,000	1,979	4,334	6,427	7,706	8,897
44,000	45,000	305	667	989	1,185	1,367	210,000	220,000	2,084	4,562	6,766	8,113	9,365
45,000	46,000	315	690	1,022	1,226	1,415	220,000	230,000	2,188	4,791	7,105	8,518	9,835
46,000	47,000	326	712	1,057	1,266	1,462	230,000	240,000	2,292	5,019	7,444	8,925	10,304
47,000	48,000	336	735	1,091	1,307	1,508	240,000	250,000	2,397	5,247	7,783	9,332	10,772

*For the last tax year of the lease, use the dollar amount for the preceding year.

**Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1996**

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$15,500	\$15,800	3	6	8	10	10
15,800	16,100	5	11	16	19	21
16,100	16,400	7	16	24	27	32
16,400	16,700	10	21	31	37	42
16,700	17,000	12	26	39	46	53
17,000	17,500	15	33	49	58	67
17,500	18,000	19	42	61	73	84
18,000	18,500	23	50	74	88	102
18,500	19,000	27	59	86	104	119
19,000	19,500	31	67	99	119	136
19,500	20,000	35	75	112	134	154
20,000	20,500	38	84	125	149	171
20,500	21,000	42	93	137	164	189
21,000	21,500	46	101	150	179	207
21,500	22,000	50	110	162	194	225
22,000	23,000	56	122	182	217	250
23,000	24,000	64	139	207	247	286
24,000	25,000	71	157	232	277	320
25,000	26,000	79	174	257	308	355
26,000	27,000	87	191	282	338	390
27,000	28,000	95	207	308	369	425
28,000	29,000	103	224	333	399	460
29,000	30,000	110	242	358	429	495
30,000	31,000	118	259	383	459	531
31,000	32,000	126	276	408	490	565
32,000	33,000	134	293	433	520	600
33,000	34,000	141	310	459	550	635
34,000	35,000	149	327	484	581	670
35,000	36,000	157	344	509	611	705
36,000	37,000	165	361	535	641	740
37,000	38,000	172	378	560	672	775
38,000	39,000	180	395	585	702	810
39,000	40,000	188	412	611	732	844
40,000	41,000	196	429	636	762	880
41,000	42,000	203	446	661	793	915
42,000	43,000	211	463	687	822	950
43,000	44,000	219	480	712	853	985
44,000	45,000	227	497	737	883	1020
45,000	46,000	235	514	762	914	1054
46,000	47,000	242	531	788	944	1089
47,000	48,000	250	548	813	974	1125

*For the last tax year of the lease, use the dollar amount for the preceding year.

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
48,000	49,000	258	565	838	1,005	1,159
49,000	50,000	266	582	863	1,035	1,195
50,000	51,000	273	599	889	1,065	1,230
51,000	52,000	281	616	914	1,096	1,264
52,000	53,000	289	633	939	1,126	1,299
53,000	54,000	297	650	964	1,157	1,334
54,000	55,000	304	668	989	1,186	1,370
55,000	56,000	312	684	1,015	1,217	1,404
56,000	57,000	320	701	1,040	1,247	1,440
57,000	58,000	328	718	1,066	1,277	1,474
58,000	59,000	336	735	1,091	1,307	1,509
59,000	60,000	343	753	1,115	1,338	1,544
60,000	62,000	355	778	1,154	1,383	1,597
62,000	64,000	370	812	1,205	1,443	1,667
64,000	66,000	386	846	1,255	1,504	1,737
66,000	68,000	402	880	1,305	1,565	1,807
68,000	70,000	417	914	1,356	1,626	1,876
70,000	72,000	433	948	1,406	1,686	1,947
72,000	74,000	448	982	1,457	1,747	2,016
74,000	76,000	464	1,016	1,508	1,807	2,086
76,000	78,000	479	1,050	1,558	1,868	2,156
78,000	80,000	495	1,084	1,609	1,928	2,226
80,000	85,000	522	1,144	1,697	2,034	2,349
85,000	90,000	561	1,229	1,823	2,186	2,523
90,000	95,000	600	1,314	1,950	2,337	2,698
95,000	100,000	638	1,400	2,075	2,489	2,873
100,000	110,000	697	1,527	2,265	2,716	3,135
110,000	120,000	774	1,697	2,518	3,019	3,485
120,000	130,000	852	1,868	2,770	3,322	3,834
130,000	140,000	930	2,038	3,023	3,624	4,185
140,000	150,000	1,007	2,208	3,276	3,927	4,534
150,000	160,000	1,085	2,378	3,529	4,230	4,884
160,000	170,000	1,163	2,548	3,781	4,533	5,234
170,000	180,000	1,240	2,719	4,033	4,837	5,583
180,000	190,000	1,318	2,889	4,286	5,139	5,933
190,000	200,000	1,396	3,059	4,539	5,442	6,282
200,000	210,000	1,473	3,230	4,791	5,745	6,632
210,000	220,000	1,552	3,400	5,044	6,047	6,982
220,000	230,000	1,629	3,570	5,296	6,351	7,332
230,000	240,000	1,706	3,740	5,550	6,653	7,681
240,000	250,000	1,784	3,911	5,801	6,956	8,032

Comparison of Business Entities

Applicable Factor	C Corporation	S Corporation	Sole Proprietor	Partnership/Limited Liability Partnership	Limited Liability Company
I. <u>Formation</u>					
A. Method	Articles of Incorporation	Articles of Incorporation	None	Partnership agreement	Articles of Organization filed in state recognizing LLCs
B. Owner eligibility					
1. Number of Owners	No limit	35 (75 for tax years beginning after 1996)	One	Two or more for limited partnership; one or more general and one or more limited for general partnership	No limit
2. Type of Owners	No limitation	Individuals and certain trusts (Note change after 1996)	Individual	No limitation	No limitation
3. Affiliate Limits	No limitation	No subsidiaries (except name holding) (Note more liberal rules to own more than 80% C corp stock & S corp subs after 12/31/96.)	No limitation	No limitation	No limitation
C. Capital Structure					
1. Equity	No limitations (multiple classes permitted)	Only one class of stock	No stock	No limitations (multiple classes)	No limitations
2. Debt	No specific limits on debts/equity ratio	Safe-harbor for debt	No specific limits	No specific limits	No specific limits
D. Status Determination					
1. Election by Entity	No election requirements	Required election	No election requirements	No election requirement but state law filing	No election requirement
2. Owner Consents	None required	Consent required	None required	None required	None required
E. Liability	Limited to shareholder's capital contributions	Limited to shareholder's contribution	Unlimited	General partners jointly and severally liable. Limited partners are generally limited to capital contributions.	Limited to member's capital contributions.
II. <u>Operational Phase</u>					
A. Tax Year	Any year permitted (limit for personal service corporation)	Generally calendar year	Calendar year	Generally calendar year	Generally calendar year
B. Tax on Income	Corporate level	Owner level (Note changes for certain trusts after 1996)	Individual level	Owner level	Member level
C. Election	Corporate level	Corporate level	Individual level	Partnership level	Corporate level
D. Allocation of Income/Deductions	Not permitted (except through multiple equity structure)	Not permitted (except through debt/equity structure)	N/A	Permitted if substantial economic effect	Permitted if substantial economic effect
E. Character of Income/Deductions	No flow-through to shareholders	Flow-through to shareholders	Flow-through to individual	Flow-through to partners	Flow-through to members
F. Net Operating Losses	No flow-through	Flow-through to shareholders (limited to basis)	Flow-through to individual	Flow-through to partners (limited to basis)	Flow-through to members (limited to basis)
G. Net Capital Losses	No flow-through, but five year carryforward	Flow-through to shareholders	Flow-through to individual	Flow-through to partners	Flow-through to members
H. Effect of Statutory Limitations	Imposed at corporate level	Imposed at shareholder level	Imposed at individual level	Imposed at partner level	Imposed at member level
III. <u>Compensations Arrangements</u>					
1. Fringe Benefits	Shareholder-officers qualify for benefits	Shareholder-officers qualify for benefits (limits apply to health insurance premiums)	Generally subject to limits applicable to individuals	Limited participation for partners	Limited participation for members

Applicable Factor	C Corporation	S Corporation	Sole Proprietor	Partnership/Limited Liability Partnership	Limited Liability Company
2. Retirement Benefits	Shareholder-officers included in qualified plans	Certain limits on shareholder-officers	Generally subject to limits applicable to individuals	Certain limits applicable to partners	Certain limits applicable to members
3. Reasonable Compensation Limits	Applicable to shareholder-officers	Applicable to shareholder-officers	N/A	Applicable where capital is a material factor	Applicable where capital is a material factor
IV. <u>Transactions with Owners</u>					
A. Distributions of Cash	Dividends to extent of earnings and profits	Dividends, generally no effect until previously taxed income fully recovered (beware transition rules for former C corps)	No effect	No effect except in calculation of basis	No effect except in calculation of basis
B. Distribution of Property	Dividend treatment; gain recognition to entity	Gain recognition to entity	No effect	No gain or loss to entity	No gain or loss to entity
C. Purchase of Owner's Interest					
1. Partial Interest	Probable dividend treatment	Tax-free, but gain for proceeds in excess of basis			
2. Entire Interest	Treatment with exceptions	Capital gain treatment after basis recovered	Cannot sell entity interest; sale of business is viewed as a sale of each asset	Capital gain treatment, except ordinary income for ordinary income assets and certain § 736 payments	Capital gain treatment except ordinary income for ordinary income assets and certain § 736 payments
D. Property Sales to Entity by Owner	Possible dividend treatment or contributions to capital	Any excess value treated as distribution or contribution	N/A	Any excess value treated as distribution or contribution	Any excess value treated as distribution or contribution
E. Property Sales to Owner by Entity	Possible dividend treatment or contributions to capital	Any excess value treated as distribution or contribution	N/A	Any excess value treated as distribution or contribution	Any excess value treated as distribution or contribution
V. <u>Termination of Entity or Owner Interest</u>					
A. Sale of Interest by Owner to Third Person	Capital gain; no effect on basis of corporation's assets	Capital gain; no effect on basis of corporation's assets	Cannot sell entity interest; sale of business is viewed as a sale of each asset	Capital gain subject to § 751 ordinary income categorization	Capital gain subject to § 751 ordinary income categorization
B. Death of Owner	Estate continues as shareholder; FMV at date of death is basis for shares; no effect on basis of corporation's assets	Estate continues as shareholder; FMV at date of death is basis for shares; no effect on basis of corporation's assets	Estate takes over business	Estate as partner subject to agreement, FMV at date of death basis for interest	Estate as member subject to agreement, FMV at date of death is basis for interest
C. Liquidation Distributions					
1. Effect to Distributor	Gain recognition if appreciated property distributed	Gain recognition if appreciated property distributed	N/A	No gain recognition on asset distributions	No gain recognition on asset distributions
2. Effect to Recipient	Capital gain on excess value received over basis	Capital gain on excess value received over basis	N/A	Substituted basis in assets equal to basis in partnership interest	Substituted basis in assets equal to basis in LLC interest
D. Reorganizations	Tax-free to shareholders if qualifying under reorganization provisions (§ 354 and § 368)	Tax-free to shareholders if qualifying under reorganization provisions (§ 354 and § 368)	N/A	No taxability on merger of partnership	No taxability on merger of LLC
E. Carryover of Tax Attributes	Carryover of tax attributes to successor entity if tax-free reorganization	Carryover of tax attributes to successor entity if tax-free reorganization	N/A		

USE OF THE S CORPORATION SHAREHOLDER BASIS SCHEDULE

The shareholder basis schedule is a tool to assist the tax practitioner in determining a shareholder's basis in his/her shares in any given year. Two versions are provided, a short version and a long version. The practitioner should select whichever best suits the situation. Please be aware that K-1 line #/descriptions are subject to change from year to year.

Basis will determine how much loss a shareholder can recognize on his or her individual return. Losses can be used to the extent of basis in capital as well as basis in loans from the shareholder to the corporation. Capital basis should be monitored when anticipating a loss pass-through to the shareholder and when distributions are planned. Generally, distributions will be nontaxable to the shareholders up to their individual capital basis unless the corporation has earnings and profits from either operating as a C corporation, operating as an S corporation prior to 1983, or from a merger with another corporation that had earnings and profits. If the capital basis and earnings and profits are exhausted, distributions become taxable as capital gain distributions.

Loan basis is important not only because of its impact on loss passthrough, but because repayments of shareholder loans can, and often do, produce taxable income to the shareholder. The IRS' position is that income from loan repayment is calculated on a ratio of loan basis to book value at the time of loan repayment. Basis in loans is rebuilt by income recognized by the shareholder. This is only for losses that reduced loan basis during taxable years beginning after December 31, 1982.

NOTE--These basis schedules assume an election has been made to decrease basis by the ordinary loss or other item of loss or deduction and depletion before decrease by nondeductible noncapital expenses. When the election is made, final regulations require nondeductible expenses and depletion in excess of basis to be carried forward and reduce basis in succeeding taxable years.

NOTE--SBJPA 1996 requires the stepped up basis in the stock in an S corporation acquired from a decedent to be reduced by the extent to which the value of the stock is attributable to items consisting of IRD. This basis rule is comparable to the present-law partnership rule. This provision applies with respect to decedents dying after August 21, 1996.

S CORPORATION SHAREHOLDER BASIS SCHEDULE
SHORT VERSION

Shareholder Name _____ Year Ended _____
 Corporation Name _____
 # Shares at Year End _____ Ownership Percentage _____

	<u>STOCK</u>	<u>LOANS</u>
Basis at beginning of year ***	_____	_____
PLUS		
Non-separately stated income.	_____	
Separately state income items.	_____	
Non-taxable income, not including book/tax timing differences.	_____	
50% of ITC recapture.	_____	
New loans to S corporation.		_____
Additional stock/paid-in-capital investment.	_____	
MINUS		
Loan repayments to shareholder		(_____)
Gain recognized on debt repayment in excess of basis		_____
Basis for current year loss.	_____	
MINUS		
Non-separately stated loss.	(_____)	(_____)
Separately stated losses and deductions.	(_____)	(_____)
Prior year(s) loss carryover utilized in current year.	(_____)	(_____)
Non-deductible expenses, not including book/tax timing differences****	_____	
Depletion adjustment****	_____	
Remaining basis.	_____	
MINUS		
Non-dividend distributions.	_____	
PLUS		
Gain recognized for non-dividend distributions in excess of basis.	_____	
Net increase for the year.**	_____	_____
Basis at end of year.	_____*	_____

* Basis cannot be less than zero. Any unused losses and deductions should be reflected on the attached schedule of carryover losses.

** Net increase for the year represents the excess of all increases to basis because of income and net of all decreases for deductible and nondeductible losses and distributions.

*** Basis in stock is calculated on a per share/per day basis. Each block of stock must be accounted for separately. Special rules apply if one block of stock has an excess negative adjustment. See final regulations.

**** This basis schedule assumes the shareholder made the election to decrease basis by ordinary loss or other item of loss or deduction and depletion before decrease by nondeductible, noncapital expenses. When the election is made, final regulations require nondeductible expenses and depletion in excess of basis to be carried forward and reduce basis in succeeding taxable years.

S CORPORATION SHAREHOLDER BASIS SCHEDULE
SHORT VERSION

Final regulations are silent as to the carryover of nondeductible items when the election is not made, but presumably these items are not carried forward.

CARRYOVER LOSSES

	Deductible	Nondeductible	Total
Balance at beginning of year			
Additional excess losses			
Prior year(s) carryover used in current year	()	()	()
Balance at end of year			

S CORPORATION SHAREHOLDER BASIS SCHEDULE LONG VERSION

Corporation Name _____ ID # _____

Shareholder Name _____ SS # _____

Year
of Shares at year end
Ownership Percentage

STOCK BASIS

(unless otherwise noted, all line references refer to this form)

1. Beginning of year
2. Additional investments.
3. Adjustments +(-).
- 4.A Current year ordinary income (from K-1, line 1).
- 4.B Current year other income (from K-1, lines 2-6,17, 18)
5. Subtotal of Lines 1 - 4.B.
- 6.A Current year ordinary loss (K-1, Line 1) proratable.
- 6.B Current year other deductions (from K-1, Lines 2 - 10) Proratable (6.A & 6.B losses not to exceed Line 5).
- 6.C Nondeductible expenses, K-1, Line 19 (not to exceed items 5 - 6.B).
7. Subtotal of Lines 5 - 6C.
- 8.A Deductible loss carryover (Line 30.D pr. yr. not to exceed Line 7).
- 8.B Nondeductible loss carryover (Line 29.D pr. yr. not to exceed Line 7 minus 8.A).
9. Nondividend distributions (not to exceed Line 7, minus lines 8.A and 8.B. Excess to line 28.C).
10. Net basis.
11. Loan restoration (net increase of items 4.A - 9).
12. Capital basis year end (Line 10 less 11).

()	()	()
()	()	()
()	()	()
()	()	()
()	()	()
()	()	()

S CORPORATION SHAREHOLDER BASIS SCHEDULE **LONG VERSION**

LOANS FROM SHAREHOLDER

13. Beginning of year (Line 19, prior yr. schedule).
14. Additions.
15. Payments.
16. Balance end of year.

()	()	()

BASIS IN LOANS FROM SHAREHOLDER

17. Beginning of year (Line 27 prior yr. schedule).
18. Restoration of basis line (Line 11).
19. Additions. (Line 14)
20. Payments. (Line 15)
21. Subtotal (Lines 17 - 20).
- 22.A Excess loss from Line 6.A or 6.B (ordinary or other deductible losses).
- 22.B Excess loss from Line 6.C (other nondeductible expenses).
- 22.C Subtotal of 22.A & 22.B (not to exceed Line 21) (excess to Line 26.A or 27.A)
- 23.A Deductible loss carryover applied to loans (not to exceed 21 less 22.C and 23.A)
- 23.B Nondeductible loss carryover applied to loans (not to exceed 21 less 22.C)
24. Loan basis end of year (line 21 - 23.B)
25. TOTAL TAX BASIS - STOCK & LOANS (Line 12 plus Line 24)

Year

()	()	()
()	()	()
()	()	()

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DEDUCTIBLE CARRYOVERS

- 26.A Unused loss and deductions from above.
- 26.B Deductible loss carryover (prior year schedule, Line 29.D).
- 26.C Deductible loss used this year (Line 8.A plus 23.A).
- 26.D Deductible loss carryover (Line 26.A plus 26.B minus 26.C).

()	()	()

NONDEDUCTIBLE CARRYOVERS

- 27.A Unused nondeductible loss and deductions from above.
- 27.B Nondeductible loss carryover (prior year schedule, Line 30D).
- 27.C Nondeductible losses used this year (Line 8.B plus 23.B)
- 27.D Nondeductible loss carryover (Line 27.A plus 27.B minus 27.C).

()	()	()

S CORPORATION SHAREHOLDER BASIS SCHEDULE
LONG VERSION

INFORMATION NOT INCLUDED IN K-1

28.A Ordinary income from loan payment.

28.B Capital gain income from loan payment.

28.C Capital gain distribution.

FOOTNOTES

Line Reference

Basis is determined on a per share, per day basis. Each block of stock must be accounted for separately. Special rules apply if one block of stock has an excess negative adjustment. See final regulations.

- 3 Other adjustments necessary to adjust basis would include among other items, a reduction in basis due to gifting some of the stock, elimination of a shareholder due to change in ownership or as a result of the death of a shareholder.
- 6.C This basis schedule assumes the shareholder made the election to decrease basis by ordinary loss or other item of loss or deduction and depletion before decrease by nondeductible, noncapital expenses. When the election is made, final regulations require nondeductible expenses and depletion in excess of basis to be carried forward and reduce basis in succeeding taxable years.
- 6.A & B Total of these two lines should not exceed Line 5. If over, take excess to Line 22.A or 22.B.
- 9 Any nondividend distribution in excess of basis in stock is considered as sale of stock and is ordinarily capital gain depending on the holding period. (Short term or long term). Report on Line 28.C.
- 11 Basis in indebtedness increases only if there is a net increase in a shareholder's basis. A net increase results if all income items of section 1367(a)(1) exceed the items described in section 1367(a)(2). These restoration rules apply only to indebtedness held by a shareholder as of the beginning of the taxable year. The indebtedness basis can not exceed the adjusted basis in the indebtedness (without reductions of 1367(b)) as of the beginning of the year.
- 12 Stock basis can not be less than zero.
- 20 If loan repayment exceeds loan basis, the gain should be shown on Line 28.A or B. Only the basis attributable to the repayment should be shown on this line.
- 22.A Line 22.A should not exceed Line 21. Any excess to Line 27.A.
- 22.B Line 22.B should not exceed Line 21 less Line 22.A. Any excess to Line 26.A.
- 24 Loan basis of shareholder should never be less than zero.

AICPA Tax Practice Guides
§ 704(b) - 1996

The following guide is segmented into three parts. The first is a narrative discussion outlining the basic steps a practitioner can follow to determine if the loss allocation is acceptable under § 704(b). The second is an example which includes a completed § 704(b) calculation. The third is a blank worksheet practitioners can use as a guide when an actual § 704(b) calculation is required.

AICPA Tax Practice Guides
§ 704(b) - 1996

1. Determine if the allocations of profit or loss are in accordance with § 704(b).

Note: The regulations under § 704(b) are broken down into two categories. The regs under 1.704-1 primarily cover general partnerships and limited partnerships with recourse debt. In most instances § 704(b) limitations apply to these types of partnerships only if there are special allocations (e.g., a partner gets a larger share of common depreciation than of all other components of loss), or if there are shifting or transitory allocations. The regulations under 1.704-2 apply to partnerships with nonrecourse debt. 1.704-2 can often result in reallocations even in instances where all items of profit and loss are shared equally throughout the life of the partnership. It is 1.704-2 that this outline is intended to address. Potential issues under 1.704-1 are beyond the scope of this outline. This outline also does not cover partnerships with revaluations ("bookups") since they too are beyond the scope of this outline.

Practitioners should also note that there are three sets of regulations under § 704(b) that may apply. The initial set of final regulations ("former regulations") were issued in 1986. Temporary regulations were issued in 1988, and new final regulations were issued in 1991. There are a variety of factors that could determine which regulations apply to a particular partnership. Practitioners should refer to Reg. § 1.704-2(l) for additional information about effective dates.

2. Determine if there is nonrecourse debt.

If so:

Are there deductions attributable to nonrecourse debt? Deductions attributable to nonrecourse debt occur when the partnership experiences a net increase in partnership minimum gain (as defined below) for the year. Partnership minimum gain is increased by anything that increases the remaining balance of nonrecourse debt (e.g., additional borrowing) or decreases the basis of partnership property subject to the nonrecourse debt (e.g., depreciation).

3. Determine if the allocations are in accordance with the "partner's interest in the partnership."

Note that although the § 704 regulations require allocations to have "substantial economic effect" (SEE) to be valid, deductions attributable to nonrecourse debt by definition lack SEE since no one except the lender bears the risk of loss. Therefore, deductions attributable to nonrecourse debt must be allocated in accordance with the partner's interest in the partnership in order to be considered valid. The regulations also require that nonrecourse deductions must be allocated in a manner that is reasonably consistent with the allocation of other significant items related to the property securing the nonrecourse debt (i.e., the regulations try to keep partnerships from specially allocating depreciation to one partner and have all other items be allocated commonly).

- (a) Does the partnership agreement contain the following provisions that allow it to meet the "safe harbor" tests that assure that the partnership's allocations are in accordance with the partner's interest in the partnership:

- (1) a requirement that capital accounts be maintained in accordance with the § 704 regulations

- and (2) that distributions in liquidation of the partnership be done in accordance with the positive § 704 capital accounts

- and (3) contain a qualified income offset provision (which requires that a partner who unexpectedly receives an adjustment or allocation of an item specified in the regulations which causes the partner's capital account to become impermissibly negative (i.e., more negative than their share of minimum gain), that they be allocated income as quickly as possible to eliminate this deficit)

- and (4) contain a minimum gain chargeback provision (which requires that if there has been a decrease in "partnership minimum gain" for the current year, each partner with an impermissibly negative capital account (as defined above) shall be allocated income sufficient to eliminate the deficit)

- (b) If the partnership agreement does not contain all the provisions above allowing it to meet the safe harbor, the allocations will still be valid if they are made in accordance with the partner's interest in the partnership (which, since the partnership failed the safe harbor test, now becomes a facts and circumstances test).

4. In order for allocations to be in accordance with the partner's interest in the partnership (either through satisfaction of the safe harbor test or based on the facts and circumstances test), deductions should generally be allocated to partners whose capital accounts are not impermissibly negative (as defined above).

Because the initial set of final regulations ("former regulations") were issued in 1986 retroactive to 1976, practitioners may encounter instances where a partner has an impermissibly negative capital account at the beginning of the year. This is as a result of the partnership having incorrectly allocated deductions in prior years. The method to correct these impermissibly negative capital accounts would be to charge back gross income to eliminate the deficit. However, since the regulations do not require such a gross income allocation and arguably the allocations for 1996 would be incorrect should a gross income allocation be made, practitioners may wish to avoid this approach. Consequently, practitioners should consider the alternative economic effect test under § 1.704-1(b)(2)(ii)(d). This regulation states that current year allocations will be acceptable under the alternative economic effect test as long as the current year allocations do not cause capital accounts to become more impermissibly negative.

In order to determine if the partners' capital accounts are impermissibly negative:

- (a) Determine if the partnership is a general partnership or if the partnership agreement or state law provides for a deficit makeup requirement (whereby upon liquidation of the partnership, all partners with negative capital accounts after sale of all assets are required to contribute cash to the partnership to eliminate the negative capital accounts).

If so, the partner's capital accounts can never be impermissibly negative and the allocations will be deemed to be in accordance with the partner's interest in the partnership.

- (b) If the partnership agreement or state law do not contain the provisions in (a) above, a minimum gain calculation will be necessary to ensure the partnership allocations do not cause a partner's capital account to become impermissibly negative.

5. Minimum gain calculation

"Minimum gain" is the gain that would occur upon a constructive liquidation of the partnership's nonrecourse assets for the amount of the partnership's nonrecourse debt. It is calculated as follows:

	remaining balance of nonrecourse debt
less	<u>adjusted basis of assets subject to the nonrecourse debt</u>
equals	partnership minimum gain.

The partnership minimum gain is then generally allocated to each partner based on the profit sharing ratios. Each partner's share of the partnership minimum gain at the end of the year should be equal to or exceed that partner's end-of-year negative capital account (as determined under the § 704 regulations).

Note that a § 704(b) capital account is generally the tax basis capital reduced by any partnership syndication costs and further reduced by any step-ups in basis resulting from a § 743 basis adjustment. (§ 734 step-ups are allowed to be included in the § 704(b) capital account).

If the minimum gain at the end of the year is less than the negative capital account (and if the minimum gain was not less than the negative capital account at the beginning of the year), then:

- (a) The partner cannot be allocated current year losses to the extent of the excess

- or (b) If the cause of the capital account being impermissibly negative is due to a decrease in partnership minimum gain, a minimum gain chargeback (i.e., an income allocation) must be made to that partner to eliminate the impermissibly negative amount of the capital account.

The "stacking rules" in the § 704 regulations generally require that in most instances the § 704(b) rules act as a limiting test to limit loss allocations to limited partners, rather than increase their loss allocations (i.e., limited partners usually will not receive more losses allocated to them as a result of § 704(b) than they would have received but for § 704(b).)

Consequently, to the extent that a limited partner is not allowed to be allocated losses due to insufficient minimum gain, the losses are allocated to the partner who bears the economic risk of loss, which in most cases is the general partner.

6. Partner and related party loans and guarantees.

- (a) When a partner or a related party to a partner makes a nonrecourse loan to a partnership or guarantees a part of the partnership's nonrecourse debt, that partner generally bears the risk of loss for the amount of the loan or guarantee.

This causes what would otherwise be nonrecourse debt to be reclassified as "partner nonrecourse debt." Partner nonrecourse debt is only available as nonrecourse debt in the minimum gain calculation to the lending or guaranteeing partner. Consequently, since this debt will not be available to the other limited partners, the partnership's minimum gain will be disproportionately allocated to the lending partner with the result being that oftentimes the lending partner will be allocated a disproportionate share of the partnership's losses (and as a result of this disproportionate allocation of losses, the lending or guaranteeing partner will also be allocated a disproportionate share of the partnership minimum gain upon a disposition of the assets).

e.g., Minimum gain calculation

	Partnership total	Partner A 20% GP	Partner B 40% LP	Partner C 40% LP
Nonrecourse Debts (Mortgage)	1,000,000	200,000	400,000	400,000
Other nonrecourse loans (from Partner A)	200,000	200,000	0	0
Nonrecourse Assets (Land & Bldg. at NTV)	<600,000>	<120,000>	<240,000>	<240,000>
Minimum Gain	<u>600,000</u>	<u>280,000</u>	<u>160,000</u>	<u>160,000</u>

- (b) Related party loans or guarantees in place prior to January 30, 1989 are not considered "partner loans" for § 704(b) purposes.
- (c) When preparing a minimum gain calculation, debt of superior priority receives an allocation of assets before debt of an inferior priority. In practice this often means that partner loans, since they are often repayable after the mortgage, are of an inferior priority to the mortgage. Consequently the assets are allocated to the mortgage first and then to the partner loans. This results in partner loans being allocated the first piece of minimum gain incurred by the partnership for the year. As a result, the lending partner can receive an allocation of losses equal to the current year increase in partner loans "off the top" before other partners receive any losses.

(d) Recoveries of Partner Loans

When a partner loans funds to a partnership, or guarantees a partnership's nonrecourse debt, the minimum gain provisions often cause the lending partner or guaranteeing partner to receive additional losses in the year of the loan or guarantee.

When that loan is repaid or guarantee eliminated, the partner no longer is at risk for those funds, so the minimum gain provisions should result in a corresponding allocation of income to the partner whose loans were repaid. (Note however, that depending upon which set of regulations apply to the partnership, an allocation of income may not be required when partner guarantees are eliminated.)

7. Attribute Reallocation

Although the regulations are silent on the potential reallocation of tax attributes (e.g., tax preference), since the regulations do require depreciation deductions to be the first deduction that gets reallocated due to insufficient minimum gain, it would seem appropriate to reallocate the attributes that are related to depreciation in a similar manner.

Example

The Sorry partnership has four partners:

	Profit & Loss	Initial Capital
	<u>%</u>	<u>Contribution</u>
Partner A GP	5	5,000
Partner B LP	5	5,000
Partner C LP	40	40,000
Partner D LP	50	<u>50,000</u>
		100,000

The partnership bought an apartment building on January 1, 1992 for \$1 million paying \$100,000 in cash and assuming a nonrecourse mortgage of \$900,000.

In years 1 and 2, the partnership had break-even operations, and incurred total depreciation expense of \$67,649. Since all partners had positive capital accounts at the end of years 1 and 2, the loss was allocated in accordance with the loss sharing ratios which was acceptable under § 704(b).

The Balance sheet at the end of year 2 was as follows:

Assets

Tenant Security Deposits		3,000
Land		50,000
Building		
Cost	950,000	
Accumulated Depreciation	<u>(67,649)</u>	
Net Tax Value		<u>882,351</u>
Total Assets		<u>935,351</u>

Liabilities and Capital

Tenant Security Deposits	3,000
Mortgage	900,000
Partner's Capital	<u>32,351</u>
Total Liabilities and Capital	<u>935,351</u>

In year 3, the apartment building suffered from a rise in vacancies and increased operating expenses resulting in a \$50,000 deficit in operations, which was funded by a nonrecourse loan by general partner *A* which was secured by the real estate. GP *A* also funded the principal curtailment on the mortgage. The partnership also had depreciation expense of \$34,542.

1994 Profit & Loss:

Regular Operations, net	(50,000)
Depreciation	<u>(34,542)</u>
Net Loss	(84,542)

The loss without 704(b) would be allocated as follows:

Partner A	5%	(4,227)
Partner B	5%	(4,227)
Partner C	40%	(33,817)
Partner D	50%	<u>(42,271)</u>
		(84,542)

The Balance Sheet at the end of year 3 is as follows:

Assets

Tenant Security Deposits		3,000
Land		50,000
Building		
Cost	950,000	
Accumulated Depreciation	<u>(102,191)</u>	
Net Tax Value		<u>847,809</u>
Total Assets		<u>900,809</u>

Liabilities and Capital

Tenant Security Deposits	3,000
Due to Partner <i>A</i>	55,000
Mortgage	895,000
Partner's Capital	<u>(52,191)</u>
Total Liabilities and Capital	<u>900,809</u>

The § 704(b) calculation for 1994 would be as follows:

§ 704 (b) Worksheet

Beginning-of-Year Balance	A Partner #1 % Interest 5	B Partner #2 % Interest 5	C Partner #3 % Interest 40	D Partner #4 %Interest 50	Total 100
<u>Nonrecourse Debt</u>					
(1) Mortgage	45,000	45,000	360,000	450,000	900,000
(1) Accrued Interest on Mortgage					
(2) Partner Loans					
(3) Pre 1/30/89 Partner Affiliate Loans					
(4) Post 1/29/89 Partner Affiliate Loans					
Total Nonrecourse Debt	45,000	45,000	360,000	450,000	900,000
<u>Nonrecourse Assets</u>					
(5) Land	2,500	2,500	20,000	25,000	50,000
(5) Building and Personal Property at NTV	44,118	44,118	352,940	441,176	882,351
(6) 734 Step-ups (including 708 step-ups)					
(6) Construction Period Interest and Taxes					
(5) Other assets that the mortgagee could acquire upon foreclosure (e.g. debt service escrows)					
Total Nonrecourse Assets	46,618	46,618	372,940	466,176	932,351
Beginning-Of-Year Minimum Gain	0	0	0	0	0

- (1) If none of the partners is the mortgagee or guarantees any of the mortgage, generally allocate in accordance with profit sharing ratios
- (2) Allocate to lending partner
- (3) If none has been guaranteed by any partner, generally allocate in accordance with profit sharing ratios
- (4) Allocate to affiliated partner
- (5) Allocate pro-rata
- (6) Allocate to appropriate partner only

§ 704 (b) Worksheet

End-of-Year Balance	A Partner #1 % Interest 5	B Partner #2 % Interest 5	C Partner #3 % Interest 40	D Partner #4 %Interest 50	Total 100
<u>Nonrecourse Debt</u>					
(1) Mortgage	44,750	44,750	358,000	447,500	895,000
(1) Accrued Interest on Mortgage					
(2) Partner Loans	55,000				55,000
(3) Pre 1/30/89 Partner Affiliate Loans					
(4) Post 1/29/89 Partner Affiliate Loans					
Total Nonrecourse Debt	99,750	44,750	358,000	447,500	950,000
<u>Nonrecourse Assets</u>					
(5) Land	2,500	2,500	20,000	25,000	50,000
(5) Building and Personal Property at NTV	42,390	42,390	339,124	423,905	847,809
(6) 734 Step-ups (including 708 step-ups)					
(6) Construction Period Interest and Taxes					
(5) Other assets that the mortgagee could acquire upon foreclosure (e.g. debt service escrows)					
Total Nonrecourse Assets	44,890	44,890	359,124	448,905	897,809
End-Of-Year Minimum Gain	52,191	0	0	0	52,191
Change in Minimum Gain	52,191				52,191

- (1) If none of the partners is the mortgagee or guarantees any of the mortgage, generally allocate in accordance with profit sharing ratios
- (2) Allocate to lending partner
- (3) If none has been guaranteed by any partner, generally allocate in accordance with profit sharing ratios
- (4) Allocate to affiliated partner
- (5) Allocate pro-rata
- (6) Allocate to appropriate partner only

	A	B	C	D	
	Partner #1	Partner #2	Partner #3	Partner #4	Total
	% Interest 5	% Interest 5	% Interest 40	%Interest 50	100
Beginning-of-Year Tax Capital Account	1,618	1,618	12,940	16,175	32,351
Less: Syndication Costs	0	0	0	0	0
Less: NTV of 743 Step-ups	0	0	0	0	0
Beginning-of-Year 704(b) Capital Account	1,618	1,618	12,940	16,175	32,351
Plus: Capital Contributed	0	0	0	0	0
Less: Distributions	0	0	0	0	0
Less: Loss Allocation before impact of 704(b) (excluding step-up depreciation on 743 step-up)	(4,227)	(4,227)	(33,817)	(42,271)	(84,542)
Tentative End-of-year 704(b) Capital Account	(2,609)	(2,609)	(20,877)	(26,096)	(52,191)
Reallocation	(49,582)	2,609	20,877	26,096	0
Final End-of-Year Capital Account	(52,191)	0	0	0	(52,191)

	A	B	C	D	
	Partner #1	Partner #2	Partner #3	Partner #4	Total
	% Interest 5	% Interest 5	% Interest 40	%Interest 50	100
End-of-Year Minimum Gain	52,191	0	0	0	52,191
Tentative End-of-Year 704(b) Capital Accounts	(2,609)	(2,609)	(20,877)	(26,096)	(52,191)
704(b) Reallocation	49,582	(2,609)	(20,877)	(26,096)	0

If a partner's end-of-year § 704(b) capital account is more negative than the partner's share of minimum gain, a reallocation will be needed away from that partner. This reallocation will generally be allocated to the general partner(s) who have minimum gain in excess of their negative capital account. If no general partner has such an excess, the loss is allocated to the general partners in accordance with their loss sharing ratios. Reallocations toward limited partners usually only occur when there are partner loan recoveries, or removal of partner guarantees.

	A	B	C	D	
	Partner #1	Partner #2	Partner #3	Partner #4	Total
	% Interest 5	% Interest 5	% Interest 40	%Interest 50	100
End-of-Year Minimum Gain	52,191	0	0	0	52,191
Final End-of-Year 704(b) Capital Accounts	(52,191)	0	0	0	(52,191)

The impact of § 704(b) would be as follows:

	Loss without § 704(b)	Reallocation under § 704(b)	Loss After § 704(b)
Partner A	(4,227)	(49,582)	(53,809)
Partner B	(4,227)	2,609	(1,618)
Partner C	(33,817)	20,877	(12,940)
Partner D	<u>(42,271)</u>	<u>26,096</u>	<u>(16,175)</u>
	(84,542)	0	(84,542)

The End-of-Year Capital Accounts by Partner would be:

Partner A	(52,191)
Partner B	0
Partner C	0
Partner D	0

Note that the following worksheet assumes all loans are of equal priority. Should practitioners encounter instances where loans are of unequal priority, it is possible several minimum gain calculations could be required, because the nonrecourse assets are allocated first to debt of superior priority, then to debt of inferior priority.

Due to the complexity of § 704(b) there are numerous variables that could cause the following worksheet to allocate losses in a manner not intended under § 704(b). Consequently, it is imperative that the practitioner closely review the allocation this worksheet produces for reasonableness and consistency with § 704(b).

§ 704 (b) Worksheet

Beginning-of-Year Balance	Partner #1	Partner #2	Partner #3	Partner #4	Total
	% Interest ____	% Interest ____	% Interest ____	% Interest ____	
Nonrecourse Debt					
(1) Mortgage					
(1) Accrued Interest on Mortgage					
(2) Partner Loans					
(3) Pre 1/30/89 Partner Affiliate Loans					
(4) Post 1/29/89 Partner Affiliate Loans					
Total Nonrecourse Debt					
Nonrecourse Assets					
(5) Land					
(5) Building and Personal Property at NTV					
(6) 734 Step-ups (including 708 step-ups)					
(6) Construction Period Interest and Taxes					
(5) Other assets that the mortgagee could acquire upon foreclosure (e.g. debt service escrows)					
Total Nonrecourse Assets					
Beginning-Of-Year Minimum Gain					

- (1) If none of the partners is the mortgagee or guarantees any of the mortgage, generally allocate in accordance with profit sharing ratios
- (2) Allocate to lending partner
- (3) If none has been guaranteed by any partner, generally allocate in accordance with profit sharing ratios
- (4) Allocate to affiliated partner
- (5) Allocate pro-rata
- (6) Allocate to appropriate partner only

§ 704 (b) Worksheet

End-of-Year Balance	Partner #1	Partner #2	Partner #3	Partner #4	Total
	% Interest ____	% Interest ____	% Interest ____	% Interest ____	
Nonrecourse Debt					
(1) Mortgage					
(1) Accrued Interest on Mortgage					
(2) Partner Loans					
(3) Pre 1/30/89 Partner Affiliate Loans					
(4) Post 1/29/89 Partner Affiliate Loans					
Total Nonrecourse Debt					
Nonrecourse Assets					
(5) Land					
(5) Building and Personal Property at NTV					
(6) 734 Step-ups (including 708 step-ups)					
(6) Construction Period Interest and Taxes					
(5) Other assets that the mortgagee could acquire upon foreclosure (e.g. debt service escrows)					
Total Nonrecourse Assets					
End-Of-Year Minimum Gain					
Change in Minimum Gain					

- (1) If none of the partners is the mortgagee or guarantees any of the mortgage, generally allocate in accordance with profit sharing ratios
- (2) Allocate to lending partner
- (3) If none has been guaranteed by any partner, generally allocate in accordance with profit sharing ratios
- (4) Allocate to affiliated partner
- (5) Allocate pro-rata
- (6) Allocate to appropriate partner only

	Partner #1	Partner #2	Partner #3	Partner #4	Total
	% Interest ____	% Interest ____	% Interest ____	% Interest ____	
Beginning-of-Year Tax Capital Account					
Less: Syndication Costs					
Less: NTV of 743 Step-ups					
Beginning-of-Year 704(b) Capital Account					
Plus: Capital Contributed					
Less: Distributions					
Less: Loss Allocation before input of 704(b) (excluding step-up depreciation on 743 step-up)					
Tentative End-of-year 704(b) Capital Account					
Reallocation					
Final End-of-Year 704(b) Capital Account					

	Partner #1	Partner #2	Partner #3	Partner #4	Total
	% Interest ____	% Interest ____	% Interest ____	% Interest ____	
End-of-Year Minimum Gain					
Tentative End-of-Year 704(b) Capital Accounts					
704(b) Reallocation					

If a partner's end-of-year § 704(b) capital account is more negative than the partner's share of minimum gain, a reallocation will be needed away from that partner. This reallocation will generally be allocated to the general partner(s) who have minimum gain in excess of their negative capital account. If no general partner has such an excess, the loss is allocated to the general partners in accordance with their loss sharing ratios. Reallocations toward limited partners usually only occur when there are partner loan recoveries, or removal of partner guarantees.

	Partner #1	Partner #2	Partner #3	Partner #4	Total
	% Interest ____	% Interest ____	% Interest ____	% Interest ____	
End-of-Year Minimum Gain					
Final End-of-Year 704(b) Capital Accounts					

PASSIVE ACTIVITY CHECKLIST

1996

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

Individuals, trusts (other than grantor trusts), estates, personal service corporations, and closely held corporations are subject to passive activity rules. Limitations on losses or credits from activities operated by partnerships and S corporations are applied at the level of the partners and shareholders.

		<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100)	ACTIVITIES			
101)	Account for all activities.	_____	_____	_____
102)	Determine that all activities are grouped according to appropriate economic unit based on facts and circumstances:			
	.1) Similarities and differences in types of business.	_____	_____	_____
	.2) Extent of common control.	_____	_____	_____
	.3) Extent of common ownership.	_____	_____	_____
	.4) Geographic location.	_____	_____	_____
	.5) Interdependencies between activities.	_____	_____	_____
103)	For rental activities consider that:			
	.1) A rental activity may not be grouped with a trade or business activity unless one activity is insubstantial in relation to the other. Note "same proportionate ownership" exception (Reg. § 1.469-4 (d)(1)).	_____	_____	_____
	.2) An activity involving the rental of real property and an activity involving the rental of personal property (other than personal property provided in connection with the real property) cannot be treated as a single activity.	_____	_____	_____
104)	Consider the six exceptions to the definition of "rental activity" (Reg. § 1.469-1T(e)(3)(ii)).	_____	_____	_____
105)	Consider the exception for taxpayers who materially participate in real property trade or businesses (§ 469(c)(7)).	_____	_____	_____
	.1) Determine if the taxpayer satisfies the tests in Reg. § 1.469-9(c).	_____	_____	_____
	.2) Determine the taxpayer's real property trade or businesses.	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST

1996

		<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
	.3) Determine whether rental real estate should be treated as a single activity or separately (Reg. § 1.469-9(g)).	_____	_____	_____
106)	Consider that aggregation elections made under Reg. § 1.469-4T(k)(3) may no longer be applicable/binding/appropriate.	_____	_____	_____
107)	Consider whether the grouping of activities is consistent with prior year unless the original grouping was clearly inappropriate, subject to the § 469(c)(7) rules, or there has been a material change in facts and circumstances. Reg. § 1.469-4(e).	_____	_____	_____
108)	Consider that taxpayers who are limited partners in activities described in § 465(c)(1) may not group that activity with any other activity except as provided in Reg. § 1.469-4(d)(3).	_____	_____	_____
109)	Consider that partnerships and S Corps must group their activities in accordance with the Reg. §§ 1.469-4(d) and 1.469-9(h).	_____	_____	_____
110)	Consider that partners and S Corp shareholders must group activities from various flow-through entities and directly conducted activities in accordance with the rules of Reg. §§ 1.469-4(d)(5) and 1.469-9(h).	_____	_____	_____
111)	Determine if any activity is specifically excluded from the definition of "passive activity" (e.g., trading in personal property, or a working interest in oil and gas property owned directly or through an entity that does not limit taxpayer's liability).	_____	_____	_____
112)	Consider whether an activity involving rental of the taxpayer's residence during the taxable year should be excluded from the passive loss rules.	_____	_____	_____
113)	Determine if an activity is subject to the "publicly traded partnership" rules, and report separately.	_____	_____	_____
200)	PORTFOLIO INCOME			
201)	Separate portfolio income from passive income or loss.	_____	_____	_____
202)	Separately state expenses that are clearly and directly allocable to portfolio income.	_____	_____	_____
203)	Review for self-charged interest. If self-charged interest is present:			
	.1) Consider whether the taxpayer's interest income should be recharacterized as passive activity income.	_____	_____	_____
	.2) Determine if the pass-through entity generating the self-charged interest elected out of the self-charged interest rules.	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST

1996

		<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
300)	SPECIAL RULES FOR C CORPORATIONS			
301)	If taxpayer is a C corporation, determine if it is a closely-held corporation or a personal service corporation subject to the passive loss limitations.	_____	_____	_____
302)	If taxpayer is a closely held C corporation, calculate its net active business income.	_____	_____	_____
303)	If taxpayer is a corporation which is a member of an affiliated group of corporations filing a consolidated return, determine:			
	.1) The status (personal service, closely held) and participation in passive activities for the group as if it were a single taxpayer; and	_____	_____	_____
	.2) Net passive income or loss is calculated on a consolidated basis, if applicable.	_____	_____	_____
400)	MATERIAL PARTICIPATION (OTHER THAN A RENTAL ACTIVITY)			
401)	Determine if the taxpayer satisfied any of the seven tests for material participation contained in Reg. § 1.469-5T(a).	_____	_____	_____
402)	If taxpayer is a limited partner, consider applying the exceptions to qualify for material participation.	_____	_____	_____
403)	Determine that the material participation tests for a partner or S corporation shareholder are applied at the ultimate taxpayer level, using the taxable year of the passthrough entity.	_____	_____	_____
404)	Determine that participation of spouses (eligible to file a joint return) are combined for the above tests.	_____	_____	_____
405)	If taxpayer is a closely held C corporation or personal service corporation, determine if shareholders owning more than 50% of its stock in the aggregate each materially participated in the activity.	_____	_____	_____
406)	If taxpayer is a closely held C corporation, consider the alternative test for material participation based on employees and business expenses (§ 469(h)(4)(B)).	_____	_____	_____
500)	ACTIVE PARTICIPATION BY AN INDIVIDUAL IN RENTAL REAL ESTATE ACTIVITY			
501)	Consider the \$25,000 special allowance for rental real estate losses and credits.	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST

1996

		<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
502)	Determine that, under the \$25,000 special allowance rule, the taxpayer actively participated both in the year the loss arose and the year in which the loss is allowed.	_____	_____	_____
503)	Consider the special allowance for the rehabilitation credit and the low income housing credit from rental real estate activities—note that active participation is not required for these credits.	_____	_____	_____
600)	DISPOSITIONS			
601)	Determine if the taxpayer disposed of, in a fully taxable transaction, his entire interest in a passive activity to an unrelated party at arm's length, or as a full abandonment of the entire interest. If so:	_____	_____	_____
	.1) Consider the rules for the disposition of an interest in a passthrough entity.	_____	_____	_____
	.2) After considering ordering rules, deduct in full any loss allocable to such activity including suspended losses from prior years.	_____	_____	_____
	.3) Consider the suspended loss utilization rules for the installment sale of an entire interest.	_____	_____	_____
602)	Consider Reg. § 1.469-4(g) regarding a disposition of substantially all of an activity. Determine with reasonable certainty:	_____	_____	_____
	.1) The amount of prior deductions and credits disallowed under passive rules allocable to the disposed activity; and	_____	_____	_____
	.2) The amount of gross income and deductions allocable to the disposed activity.	_____	_____	_____
603)	Consider the treatment of suspended losses in dispositions characterized as nontaxable exchanges.	_____	_____	_____
604)	At death of taxpayer, deduct suspended losses to the extent such losses exceed the amount by which the activity's basis is increased pursuant to § 1014.	_____	_____	_____
605)	Determine that the donee's basis of a passive activity interest has been increased by the amount of any related suspended losses, limited to fair market value. Note that the donor may not claim the suspended losses.	_____	_____	_____
606)	For pre-1987 installment sales, consider whether post-1986 gain recognized is eligible to be treated as passive income.	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST

1996

		<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
607)	Determine ability to deduct passive credits. Note that although credits are not "freed-up" on disposition, the taxpayer may make an election to increase basis (§ 469(j)(9)).	_____	_____	_____
700)	SPECIAL CHARACTERIZATION OF INCOME RULES			
701)	Determine if gain from the disposition of an interest in an activity is passive in the year of disposition (12 month rule). Note special rules for dealers.	_____	_____	_____
702)	Determine the character of gain on the disposition of substantially appreciated property formerly used in a nonpassive activity.	_____	_____	_____
703)	Determine if net income from property rented for use in a trade or business activity in which the taxpayer materially participated (including partnership, S corporation, and C corporation) for the taxable year is treated as nonpassive income. Note exception for leases prior to February 19, 1988.	_____	_____	_____
704)	Consider whether net income from the rental of substantially non-depreciable property (less than 30% of basis is subject to depreciation) must be recharacterized as not from a passive activity.	_____	_____	_____
705)	If the activity is a significant participation activity with net income, but not a material participation activity, determine whether a ratable portion of the activity's net income must be recharacterized as not from a passive activity.	_____	_____	_____
706)	If the activity involves the lending of money, consider the "equity-financed lending activity" rule (Reg. § 1.469-2T(f)(4)).	_____	_____	_____
707)	Determine if net royalty income from intangible property held by a passthrough entity should be treated as nonpassive royalty income (Reg. § 1.469-2T(f)(7)).	_____	_____	_____
708)	Determine if the "developer rule" requires the gain on the sale of rental property to be recharacterized as nonpassive income.	_____	_____	_____
709)	Determine if distributions in excess of basis from partnerships and S corporations can be characterized as income from a passive activity (Rev. Rul. 95-5).	_____	_____	_____
710)	Determine if discharge of indebtedness income can be characterized as income from a passive activity (Rev. Rul. 92-92).	_____	_____	_____
711)	Determine if the taxpayer has carryforward losses from a former passive activity that can offset active income from the same activity.	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST

1996

		<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
800)	OTHER PASSIVE ACTIVITY RULES			
801)	Determine that other provisions limiting the deductibility of items, such as § 465 at risk provisions, § 704(d) and § 1366(d) basis limitations, have been considered before applying the passive loss rules.	_____	_____	_____
802)	For each passive activity, combine the passive income and passive losses for that activity to determine net passive income or loss for the activity.	_____	_____	_____
803)	Consider the passive loss limitations for purposes of the alternative minimum tax.	_____	_____	_____
804)	Determine if there are carryovers of passive losses or credits per activity for both regular tax and AMT purposes.	_____	_____	_____
805)	Consider that suspended pre-1987 losses as a result of at risk or basis limitations that may be claimed are not subject to § 469 limitations.	_____	_____	_____
806)	If a casualty or theft loss was incurred, determine if it is subject to a § 469 limitation.	_____	_____	_____
807)	Subject credits from passive activities to the applicable limitations for such credits; generally such credits may not offset taxes other than taxes related to net passive income.	_____	_____	_____
808)	Allocate disallowed passive loss ratably among the taxpayer's passive activities having net losses for the taxable year and prepare a carryforward schedule.	_____	_____	_____
809)	Consider special passive activity rules for estates and trusts.	_____	_____	_____

COMMENTS OR EXPLANATIONS

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706 As Revised August 1993
For Decedents Dying after October 8, 1990

Decedent's Name and Client Number: _____

Personal Representative: _____ Date of Death: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

100) GENERAL INFORMATION	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
--------------------------	-------------	------------	------------------------------------

101) Obtain and review the following documents, if applicable:

- | | | | |
|--|-------|-------|-------|
| .1) Will and other governing documents to ascertain the various provisions for distributions, payment of taxes, debts and administrative expenses. | _____ | _____ | _____ |
| .2) Any trust(s) instruments and Forms 1041 to determine if the decedent was a grantor or trustee of any trusts, or held any interest or power in any trusts, to determine whether any of the trust assets are includible in the gross estate. | _____ | _____ | _____ |
| .3) Gift tax returns: | | | |
| .a) Determine whether gift tax adjustments or examinations have been made or are being conducted by the IRS. | _____ | _____ | _____ |
| .b) If no gift tax returns have been filed, consider whether such returns should be filed. Note that the date of Form 709 is the earlier of the due date of the Form 706 or April 15th of the year following the year the gifts were made. | _____ | _____ | _____ |
| .4) Prior income tax returns, gift tax returns, memos, workpapers and correspondence files. | _____ | _____ | _____ |

102) Consider obtaining a written engagement letter outlining:

- | | | | |
|--|-------|-------|-------|
| .1) Scope of services and description of work. | _____ | _____ | _____ |
| .2) Responsibilities undertaken by the CPA. | _____ | _____ | _____ |
| .3) Responsibilities the client is expected to assume. | _____ | _____ | _____ |
| .4) Fee arrangements. | _____ | _____ | _____ |
| .5) Arrangements for update and extension of services. | _____ | _____ | _____ |

103) Obtain the following:

- | | | | |
|---|-------|-------|-------|
| .1) List of executor(s)/personal representative(s) names, addresses and social security (or employer ID) numbers. | _____ | _____ | _____ |
|---|-------|-------|-------|

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706 As Revised August 1993
For Decedents Dying after October 8, 1990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Certified copy of the death certificate.	_____	_____	_____
.3) Copy of any inventory of the decedent's assets.	_____	_____	_____
.4) A list of the following beneficiary information:			
.a) Full name and address.	_____	_____	_____
.b) Relationship to the decedent.	_____	_____	_____
.c) Social security number.	_____	_____	_____
.d) Birth date.	_____	_____	_____
104) Determine the location of, and the persons with, access to any safety deposit box to which the decedent had access.	_____	_____	_____
105) For a decedent owning property in a community property state, ascertain the separate, joint or community character of the property.	_____	_____	_____
106) File federal Form 56 regarding fiduciary relationship on behalf of:			
.1) CPA.	_____	_____	_____
.2) Attorney.	_____	_____	_____
.3) Executor/personal representative.	_____	_____	_____
107) Determine the need to hire an appraiser(s):			
.1) Appraisals may be required if the estate includes articles of artistic or collectible value in excess of \$3,000 or any collections whose artistic or collectible value combined at date of death exceeds \$10,000.	_____	_____	_____
.2) Appraisals involving real estate should consider the potential applicability of discounts for fractional interests (including costs of partition) and for potential environmental law exposure.	_____	_____	_____
.3) Appraisals involving businesses should consider the potential applicability of discounts for minority interests, blockage, and contractual or statutory restrictions on transferability.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706 As Revised August 1993
For Decedents Dying after October 8, 1990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR</u> <u>EXPLANATION</u>
200) ELECTIONS			
201) Valuation.			
.1) Determine whether to elect alternate valuation. Note that alternate valuation is not available unless both the gross estate and the estate tax liability are reduced as a result of the election.	_____	_____	_____
.2) Consider special use valuation for real property (see checklist #400).	_____	_____	_____
202) Marital deduction elections.			
.1) Qualified Terminable Interest Property (QTIP):			
.a) If a QTIP election is an available option under the will or other governing instrument, consider whether that election should be made.	_____	_____	_____
.b) Consider extending the time for filing Form 706 to permit a more informed decision about making a QTIP election.	_____	_____	_____
.2) Consider electing Qualified Domestic Trust (QDOT) status for transfers to a non-U.S. citizen's spouse.	_____	_____	_____
203) Generation-Skipping Transfer (GST) Tax.			
.1) Consider allocating the GST tax exemption (§§ 2631 & 2632).	_____	_____	_____
.2) Consider allocating the GST tax exemption based on the transferred property's value as of the first day of the month (Reg. § 26.2642-2(a)(2)).	_____	_____	_____
.3) Consider the reverse QTIP election.	_____	_____	_____
204) Consider deferring payment of the estate tax.			
.1) Election to pay tax in installments for closely held business (§ 6166):			
.a) Apply attribution rules in determining whether gross estate includes 20% or more of a business interest (§ 6166(b)(7)).	_____	_____	_____
.b) Consider election to treat holding company stock as stock in a closely held business (§ 6166(b)(8)).	_____	_____	_____
.2) Election to defer estate tax attributable to reversionary or remainder interest (§ 6163).	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706 As Revised August 1993
For Decedents Dying after October 8, 1990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Request to defer estate tax for reasonable cause (§ 6161).	_____	_____	_____
205) Consider other elections.			
.1) Deferring additional tax on excess retirement accumulations (§ 4980A(d)(5)). (See checklist #2100.)	_____	_____	_____
.2) Electing an alternate interest rate for valuation of annuities, etc. (§ 7520(a)).	_____	_____	_____
.3) Deducting unpaid medical expenses on Form 706 or on the decedent's final Form 1040 (if such expenses are paid within one year after death).	_____	_____	_____
.4) Using qualified disclaimer within nine months of decedent's death (§ 2518 and applicable state law).	_____	_____	_____
300) SCHEDULE A—REAL ESTATE			
301) If there is joint ownership, determine whether to report on Schedule E.	_____	_____	_____
302) Ascertain if decedent's interest is a split interest, e.g., life interest, remainder interest or term of years. If so, refer to appropriate actuarial tables.	_____	_____	_____
303) If split interest is owned with family member(s), refer to § 2702 and note effective date.	_____	_____	_____
304) Ascertain whether contract price or appraised values should be used as fair market value in case of sale pending at death.	_____	_____	_____
305) Exclude cemetery lots for decedent and decedent's family from gross estate. Include in the gross estate additional cemetery lots that have market value.	_____	_____	_____
306) If property is security for a debt, show the debt separately on Schedule K, unless the debt is nonrecourse.	_____	_____	_____
400) SCHEDULE A-1—SPECIAL USE VALUATION			
401) Ascertain whether the election is available for farm or other closely-held business real property.	_____	_____	_____
402) Review all required documents for the election.	_____	_____	_____
403) If the election is available, determine the names, addresses, and tax identification numbers of the qualified heirs and other interested parties and their relationship to the decedent.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706 As Revised August 1993
For Decedents Dying after October 8, 1990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR</u> <u>EXPLANATION</u>
404) Determine who will act as agent for the qualified heirs and other interested parties in dealings with the IRS on special use valuation matters.	_____	_____	_____
405) Consider making a woodlands election under § 2032A(e)(13).	_____	_____	_____
500) SCHEDULE B—STOCKS AND BONDS			
501) If there is joint ownership, determine whether to report on Schedule E.	_____	_____	_____
502) Ascertain issuer name, number of shares and par value, and description of security (including CUSIP number).	_____	_____	_____
.1) For listed stocks or bonds, indicate stock exchange.	_____	_____	_____
.2) For bonds, indicate interest rate and maturity date.	_____	_____	_____
.3) For stocks trading "ex-dividend" on the date of death, add the dividend amount to the ex-dividend quotation to determine the taxable value of the stock. (Dividends that have been declared but not paid prior to the date of death are not separately includible for estate tax purposes in cases where the ex-dividend date is after the date of death.)	_____	_____	_____
.4) Accrued interest on bonds should be shown separately, but as a part of the same item number, immediately following the value of the bond to which it relates.	_____	_____	_____
.5) Review valuation of securities in accordance with the regulations under § 2031. Note specific rules when valuation date is not a trading date.	_____	_____	_____
503) Ascertain whether "flower bonds" are includible in the gross estate. See Rev. Rul. 69-489 for valuation rules.	_____	_____	_____
504) Determine that Series H and HH bonds are included at face value.	_____	_____	_____
505) For Series E and EE savings bonds, value in accordance with the tables promulgated by the Treasury Department (available in most major tax services).	_____	_____	_____
506) Inquire whether there is closely-held stock.	_____	_____	_____
.1) Review Reg. § 20.2031-2 and Rev. Ruls. 59-60 and 68-609 for valuation guidance.	_____	_____	_____
.2) Ascertain whether there have been sales of shares of stock or other company securities within a reasonable time period prior	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
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FORM 706 As Revised August 1993
For Decedents Dying after October 8, 1990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
to or subsequent to death, and if so, determine the sales price and other information.	_____	_____	_____
.3) Consider the availability of marketability, minority and other valuation discounts.	_____	_____	_____
.4) Ascertain whether a restricted transfer agreement (or other provision restricting transferability of the security) or a buy-sell agreement exists, and if so, whether its provisions affect estate tax value.	_____	_____	_____
.5) Determine whether there is an estate freeze transaction in effect. If so, determine and document the likely impact of various reporting positions on the return.	_____	_____	_____
600) SCHEDULE C—MORTGAGES, NOTES AND CASH			
601) Calculate accrued interest on interest-bearing instruments.	_____	_____	_____
602) For joint accounts, determine amount includible in gross estate. Determine whether to report on Schedule E.	_____	_____	_____
603) Determine value of mortgages and notes receivable (presumed to be face amount unless discount factors present). Calculate accrued interest.	_____	_____	_____
604) If any outstanding checks are for gifts made by the decedent, determine whether these funds may be excluded from the gross estate.	_____	_____	_____
605) Inquire about any self-canceling installment sale notes. Such notes may be excludable from the decedent's gross estate.	_____	_____	_____
606) Convert foreign accounts or currency into U.S. equivalent as of the date of death or alternate valuation date, whichever is applicable.	_____	_____	_____
607) Ascertain the amount of cash on hand and/or undeposited checks at death.	_____	_____	_____
700) SCHEDULE D—LIFE INSURANCE ON DECEDENT'S LIFE			
701) Procure Form 712 for each life insurance policy on the decedent's life.	_____	_____	_____
702) With respect to life insurance on the decedent's life other than insurance payable to the decedent's estate, determine what, if any, incidents of ownership the decedent possessed at the time of death.	_____	_____	_____
703) If life insurance is held in trust, determine whether death proceeds are includible in the estate under § 2035 through § 2042.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706 As Revised August 1993

For Decedents Dying after October 8, 1990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR</u> <u>EXPLANATION</u>
704) Inquire whether life insurance is owned by a closely-held corporation in which the decedent held more than 50% of the voting power and determine whether it is includible in the gross estate as a separate item, or whether it should be reflected in the valuation of the corporation.	_____	_____	_____
705) Determine whether split-dollar insurance is includible in the estate. (If decedent is controlling shareholder, review Rev. Rul. 78-420.)	_____	_____	_____
706) Inquire whether there is group term life insurance and ascertain whether it is includible.	_____	_____	_____
707) If decedent paid premiums on assigned life insurance policies, determine the effect, if any, on includibility in the estate.	_____	_____	_____
708) If decedent transferred a life insurance policy on his or her life within three years of death, then determine whether the proceeds are included in the gross estate. The transfer could involve one or more incidents of ownership.	_____	_____	_____
 800) SCHEDULE E—JOINTLY OWNED PROPERTY			
801) Determine correct description of property and type of joint interest.	_____	_____	_____
802) Ascertain source of funds for acquisition of jointly-owned property (unless spouse is the only other joint owner), and document. (Presumption is that 100% of consideration is attributable to decedent.)	_____	_____	_____
803) For property owned as community property, or as tenants in common, determine that appropriate interests are included on the applicable schedules other than Schedule E.	_____	_____	_____
 900) SCHEDULE F—MISCELLANEOUS PROPERTY			
901) Determine whether the decedent had any rights(s) to payments for services performed prior to death, such as rights to accrued salary, accrued vacation pay, and nonqualified deferred compensation. Note that payments receivable at time of death may be eligible for the income tax deduction for estate tax attributable to income in respect of a decedent under § 691.	_____	_____	_____
902) Include appropriate value of life insurance on the life of another (obtain Form 712).	_____	_____	_____
903) Review personal property insurance policies to identify includible items.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706 As Revised August 1993
For Decedents Dying after October 8, 1990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
904) Determine whether other miscellaneous items are includible, such as:			
.1) Decedent's share of federal, state, local or foreign income tax overpayment. (See Reg. § 20.2053-6(f).)	_____	_____	_____
.2) Prepaid items.	_____	_____	_____
.3) Decedent's after-tax contributions to qualified plans.	_____	_____	_____
.4) Vehicles, boats, and other similar property.	_____	_____	_____
.5) Personal belongings.	_____	_____	_____
.6) Rent, royalty, interest (other than bond interest), and trust income accrued but unpaid at death.	_____	_____	_____
.7) Non-mineral royalties and leaseholds.	_____	_____	_____
905) Inquire whether the decedent held an interest in a sole proprietorship, partnership, or joint venture. Review Reg. § 20.2031-3 for guidance.	_____	_____	_____
.1) Ascertain whether there have been sales of an interest in the partnership in which the decedent had an interest within a reasonable period prior to or subsequent to death. If so, determine the sale price and other relevant information.	_____	_____	_____
.2) Consider the availability of marketability, minority and other valuation discounts.	_____	_____	_____
.3) Ascertain whether any restricted transfer agreement (or other provision restricting transferability of the security) or a buy-sell agreement exists, and if so, whether its provisions affect the estate tax value.	_____	_____	_____
.4) Inquire as to whether there is an estate freeze transaction in effect. If so, determine the likely impact of various reporting positions on the return, and document.	_____	_____	_____
906) Include decedent's interest in qualified terminable interest property (for which a valid QTIP election was made earlier at spouse's death.)	_____	_____	_____
.1) Check for partial QTIP election.	_____	_____	_____
.2) Include accrued and undistributed income, if governing instrument requires distribution to decedent's estate.	_____	_____	_____
907) Review will or other documents (e.g., revocable trust) for transfers of specific assets and determine whether identified property was owned at death.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706 As Revised August 1993
For Decedents Dying after October 8, 1990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
1000) SCHEDULE G—TRANSFERS DURING LIFE			
1001) Determine if gift tax was paid on gifts made within three years before death. The gift tax is includible if the decedent paid the gift tax, even if the decedent's spouse was the actual donor.	_____	_____	_____
1002) Note lifetime transfers (other than outright transfers not in trust and bona fide sales) of decedent in Schedule G, whether or not includible in the gross estate. Attach copies of applicable documents.	_____	_____	_____
1003) Review trusts for power of grantor to change trustee. If trustee is not bound to ascertainable standard for distributions, the trust assets could be includible (Rev. Rul. 79-353).	_____	_____	_____
1004) Notify donee of basis of includible gifts made within three years of death (§ 2035(d)(2)).	_____	_____	_____
1005) Inquire about gifts with retained interests made by decedent. Value at date of death, even if not owned by donee.	_____	_____	_____
1006) Review rules for inclusion of gifts for which gift splitting was elected.	_____	_____	_____
1100) SCHEDULE H—POWERS OF APPOINTMENT			
1101) Review rules on valuation of property over which the decedent held a general power, including any partial interest (Reg. § 20.2041-3).	_____	_____	_____
1102) Check for "5 and 5 powers" (see § 2041(b)(2)) which existed for the entire year of death and caused the property subject to the power to be included in the gross estate as a result of the power not having lapsed at death.	_____	_____	_____
1200) SCHEDULE I—ANNUITIES AND RETIREMENT BENEFITS			
1201) Determine whether any annuities can be excluded under the transitional rules of TEFRA and the Revenue Act of 1984.	_____	_____	_____
1202) Verify amount of benefit includible. Include amounts attributable to employer contributions to retirement plans. Amounts attributable to employee after-tax contributions should be listed on Schedule F (See checklist # 904.3).	_____	_____	_____
1300) SCHEDULE J—ADMINISTRATION EXPENSES			
1301) Inquire as to funeral expenses advanced to the estate by others.	_____	_____	_____
1302) Ascertain whether funeral expenses are to be reduced for VA benefits and for social security death benefits payable to other than decedent's spouse.	_____	_____	_____

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For Decedents Dying after October 8, 1990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
1303) Inquire as to whether attorney, accountant and/or executor fees will be paid, agreed to, or estimated.	_____	_____	_____
1304) Consult will or other governing instruments and applicable state law for provisions regarding executor fees and other professional fees.	_____	_____	_____
1305) If there are co-executors, determine whether each will receive an executor fee and determine the amount.	_____	_____	_____
1306) Consider deduction of § 6166 interest on installment payment of estate tax. Note Rev. Proc. 81-27 for guidance on filing of supplemental returns.	_____	_____	_____
1307) Determine whether to deduct administrative expenses (e.g., professional fees, property taxes, interest expense) on Form 706 or the estate's Form 1041.	_____	_____	_____
1308) Determine that all expenses included on Schedule J are reasonable, taking into account applicable state law.	_____	_____	_____
1309) Deduct interest paid on funds borrowed to pay death taxes and post-death interest on Federal and State income tax deficiencies if incurred with respect to contesting tax liabilities.	_____	_____	_____
1310) Consider deducting the cost of maintaining or storing estate property.	_____	_____	_____
1400) SCHEDULE K—DEBTS OF DECEDENT, MORTGAGES AND LIENS			
1401) Reference real property indebtedness to the Schedule A, E, F, G, or H asset to which it relates.	_____	_____	_____
1402) Review items which may also be deducted for federal income tax purposes (deductions in respect of decedent).	_____	_____	_____
1403) Determine if gift or income tax was payable at death. See Reg. § 20.2053-6(f), for allocation of income tax liability of the decedent and surviving spouse for joint return for the year of death.	_____	_____	_____
1404) Consider the support or alimony obligation of decedent under divorce decree or settlement.	_____	_____	_____
1405) Consider listing on Schedule K amounts relating to contingent liabilities, such as pending or threatened litigation.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
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For Decedents Dying after October 8, 1990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
1500) SCHEDULE L—NET LOSSES DURING ADMINISTRATION AND EXPENSES INCURRED IN ADMINISTERING PROPERTY NOT SUBJECT TO CLAIMS			
1501) Include casualty losses not taken on the federal income tax return for the estate. Include at value used for federal estate tax return purposes.	_____	_____	_____
1502) Include expenses for settlement of title or collection of assets not included in decedent's probate estate. (Do not include expenses incurred on behalf of beneficiaries; see Reg. § 20.2053-8.)	_____	_____	_____
1503) Determine details of payments and maintain documentation. Note that the time limit on deductible payment is the applicable period of limitations on assessment of estate tax (§ 6501).	_____	_____	_____
1600) SCHEDULE M—BEQUESTS TO SURVIVING SPOUSE			
1601) Identify and document all probate property passing to the surviving spouse.	_____	_____	_____
1602) Identify and document all non-probate property which passes to the surviving spouse (e.g., life insurance, employee plan death benefits and certain jointly-owned property).	_____	_____	_____
1603) Determine and document whether the marital property bears any part of the taxes, debts or administrative expenses of the estate under the terms of the decedent's will or other governing document.	_____	_____	_____
1604) Consider using a qualified disclaimer to expand or reduce the marital deduction of the estate. Review § 2518 and applicable state law.	_____	_____	_____
1605) Determine whether the will creates a limited marital deduction under a "maximum marital deduction" formula clause in light of the transitional rule of ERTA '81, § 403(e).	_____	_____	_____
1606) If a QTIP election is to be made:			
.1) Determine values and document.	_____	_____	_____
.2) Consider election of only a fractional or percentage share. Reg. § 20.2056(b)-7(b)(2).	_____	_____	_____
.3) Insure proper treatment on Schedule M.	_____	_____	_____
1607) If the surviving spouse is not a U.S. citizen, then additional requirements must be met before a marital deduction is available. See Qualified Domestic Trust (QDOT) rules of § 2056A.	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
1700) SCHEDULE O—CHARITABLE PUBLIC AND SIMILAR GIFTS AND BEQUESTS			
1701) Identify and document items passing under the will or other governing instrument to qualified charities.	_____	_____	_____
1702) Review the will or other governing instruments giving rise to charitable deductions involving charitable split-interest trusts or bequests.	_____	_____	_____
1703) Determine whether charitable gifts or bequests bear any of the estate's taxes, debts, or administrative expenses.	_____	_____	_____
1704) Consider using a qualified disclaimer to expand or reduce the charitable deduction of the estate. Review § 2518 and applicable state law.	_____	_____	_____
1705) Determine whether charitable split-interest trust requires reformation in order to obtain estate tax charitable deduction.	_____	_____	_____
1706) Obtain certified copies of all recorded documents for all lifetime transfers to be listed. If document of transfer was not recorded, obtain verified copies.	_____	_____	_____
1800) SCHEDULE P—CREDIT FOR FOREIGN DEATH TAXES			
1801) Obtain and complete Form(s) 706CE for foreign death tax credit claim. (Note: a U.S. possession is treated as a foreign country.)	_____	_____	_____
1802) Consider whether to claim credit or deduction as administration expense.	_____	_____	_____
1803) Consult applicable treaty for possible additional credit available.	_____	_____	_____
1804) Calculate credit under each available alternative to determine best result.	_____	_____	_____
1900) SCHEDULE Q—CREDIT FOR PRIOR TRANSFERS			
1901) Determine if decedent acquired property within the ten year period ending with death or received property from a transferor who died within two years after decedent's death. If so, obtain a copy of the transferor's estate tax return in order to calculate the credit.	_____	_____	_____
1902) Review the definition of "property" (§ 2013(e)) received by the decedent for purposes of claiming the credit.	_____	_____	_____

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For Decedents Dying after October 8, 1990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
1903) Determine if credit is available if the transferee (decedent) was the transferor's spouse and the marital deduction was allowed to the transferor's estate for the property.	_____	_____	_____
1904) Determine if transferor's estate elected special use valuation and became subject to the additional estate tax of § 2032A(c) as a result of its disposition or cessation of qualified use at any time up to two years after the death.	_____	_____	_____
1905) Review § 2056(d)(3) for specific rules allowing a credit for certain transfers to a spouse who was not a U.S. citizen when the property passed outright to the spouse, or to a QDOT.	_____	_____	_____
1906) If property was acquired from more than one transferor, calculate allowable credit separately with respect to each transferor.	_____	_____	_____
2000) SCHEDULES R AND R-1—GENERATION-SKIPPING TRANSFER (GST) TAX			
2001) Review copies of trusts (and related tax returns), life insurance policies or other lifetime arrangements which decedent created for generation-skipping provisions.	_____	_____	_____
2002) Review lifetime transfers and determine if the GST tax implications have been properly reflected on gift tax returns filed by the decedent (and the decedent's spouse and/or former spouses), considering the allocation of the decedent's one-time \$2 million per grandchild exclusion (for certain transfers made before January 1, 1990) and the \$1 million lifetime exemption under § 2631.	_____	_____	_____
.1) If a deemed allocation under § 2632(b) occurred with respect to certain transfers (made before January 1, 1990) not reported on gift tax returns, determine the impact on the \$2 million exclusion.	_____	_____	_____
.2) If allocation of the \$1 million lifetime exemption was not made on a timely filed gift tax return or deemed made under § 2632 (b)(1), determine that values at the time of allocation are calculated and that a filing is made to allocate such amount, per § 2642(b)(3).	_____	_____	_____
2003) If decedent was incompetent at death, inquire when the decedent became incompetent. Review the transitional rules which exempt from tax certain transfers occurring at death where the decedent was incompetent on October 22, 1986 and continually thereafter until death.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706 As Revised August 1993

For Decedents Dying after October 8, 1990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
2004) If decedent created an irrevocable trust before September 26, 1985, determine whether additions to the trust (actual or constructive) were made after September 25, 1985.	_____	_____	_____
2005) Review trusts created after September 25, 1985 which have received property from trusts created before that date through the exercise of a special power of appointment. Grandfathering of an exemption from tax liability may arise under Reg. § 26.2601-1(b)(4) and Reg. § 26.2601-1(b)(1)(v)(B).	_____	_____	_____
2006) Determine whether a "reverse qualified terminable interest property election" under § 2652(a)(3) should be made to treat the decedent as a transferor for GST tax purposes for marital transfers for which a QTIP election was made under § 2056(b)(7). Review formulas for reverse QTIP elections and separate marital trusts created thereby.	_____	_____	_____
2007) Determine whether a "reverse qualified terminable interest property election" was made by decedent's predeceased spouse, and an allocation of the GST tax exemption made on such spouse's estate tax return.	_____	_____	_____
.1) Determine whether estate tax payment from a source outside the decedent's estate (e.g., insurance trust) is a constructive addition to this otherwise exempt amount.	_____	_____	_____
.2) If no such election was made for QTIP property in which the decedent had a qualifying income interest for life, consider whether the decedent's GST tax exemption under § 2631 should be allocated to the trust.	_____	_____	_____
2008) Consider impact on the tax calculation of use of alternate valuation election under § 2032.	_____	_____	_____
2009) Consider impact on the tax calculation of the use of the special use valuation election under § 2032A.	_____	_____	_____
2010) Determine if there was consideration paid by the donee in a generation-skipping transfer which would reduce the amount subject to GST tax.	_____	_____	_____
2011) Review life insurance trusts and other trusts created after March 31, 1988 to determine whether trust's use of "Crummey powers" to create nontaxable gifts for gift tax purposes will also be eligible for the annual exclusion for GST tax purposes (§ 2642(c)).	_____	_____	_____
2012) Determine the amount of GST tax exemption used in the payment of insurance premiums.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706 As Revised August 1993

For Decedents Dying after October 8, 1990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
2013) Review charitable lead annuity trusts created after September 25, 1985 for GST tax impact on the computation of the exclusion ratio, and consider the impact on the inclusion ratio of property transferred to the trust after October 13, 1987 under § 2642(e).	_____	_____	_____
2014) Review transfers to persons unrelated to the decedent who are more than 37½ years younger to determine whether allocation of the GST tax exemption under § 2631 should be made (§ 2651(d)).	_____	_____	_____
2015) Review the consequences of qualified disclaimer(s) on potential GST tax transfers. Consider the use of a qualified disclaimer to maximize the decedent's GST tax exemption. Review § 2518 and applicable state law.	_____	_____	_____
2016) Determine whether transferred property (which would otherwise be a generation skipping transfer) was not previously subject to gift tax. Under certain circumstances, such transfers are not GST tax transfers under § 2611(b).	_____	_____	_____
2017) Determine whether the GST tax allocation is appropriate for a grantor retained interest trust where the grantor died during the term of the trust.	_____	_____	_____
2018) Consider use of the GST tax exemption for a credit shelter trust or a charitable remainder trust, whichever is applicable, as well as a general review of the proper allocation of any remaining exemption.	_____	_____	_____
2019) If a pecuniary formula marital deduction bequest is made, consider applicability of the GST tax where the decedent's estate appreciated between the date of death and the date of funding. Funding under these circumstances is to occur using date of death values.	_____	_____	_____
2100) SCHEDULE S—INCREASED ESTATE TAX ON EXCESS RETIREMENT ACCUMULATIONS			
2101) If the decedent had an interest in a qualified plan, SEP, IRA, or tax-sheltered annuity, with death benefits attributable to pretax contributions, determine amount so attributable. Obtain the last Form 8606 filed by the decedent and other information to determine after-tax contributions.	_____	_____	_____
2102) Ascertain whether the decedent made the grandfather election (with 1987 or 1988 federal income tax return) which affects the calculation of the excess accumulation.	_____	_____	_____
2103) Determine if at least 99% of all benefits from all applicable plans are payable to the decedent's surviving spouse. If so, the surviving spouse may elect to postpone the tax until he or she collects the benefits. The surviving spouse's signed election must be attached to the Form 706.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706 As Revised August 1993
For Decedents Dying after October 8, 1990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
2104) For the purpose of calculating the hypothetical life annuity, ascertain the federal rate to be used to value the base amount. The rate is announced monthly in the Internal Revenue Bulletin.	_____	_____	_____
2105) Determine if decedent's estate includes retirement amounts previously included in decedent's spouse's estate for which the executor elected to postpone the excise tax, and calculate tax on unpaid amounts at decedent's death.	_____	_____	_____
2200) MISCELLANEOUS			
2201) Verify that all executors have signed the return.	_____	_____	_____
2202) Consider notifying all interested parties, such as partnerships and beneficiaries, of estate tax values.	_____	_____	_____
2203) Consider drafting transmittal letter to IRS and/or state(s). Note proper IRS and state processing centers.	_____	_____	_____
2204) Consider § 2204 election to limit exposure to federal estate tax by personal representative.	_____	_____	_____
2300) AUDIT TRIGGER REMINDERS			
<ul style="list-style-type: none"> • Substantial real estate holdings. • Closely held stock. • Life insurance excluded from the estate. • Jointly held (other than with spouse) property excluded, in whole or part, from the estate. • Miscellaneous personal property. • Transfers within three years of death. • Alternate valuation. • Special use valuation. 			

COMMENTS OR PLANNING SUGGESTIONS

U.S. GIFT (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN CHECKLIST
FORM 709 As Revised November 1993
For Gifts Made After December 31, 1991

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Determine if the taxpayer (donor) is required to file a gift tax return for transfers such as:	_____	_____	_____
.1) Gift to donee of a present interest in property with a value in excess of \$10,000 except:	_____	_____	_____
.a) Transfers to political organizations.	_____	_____	_____
.b) Tuition at a qualified educational institution and medical expenses paid directly by the donor.	_____	_____	_____
.2) Gift of future interest of any amount.	_____	_____	_____
.3) Gift of <u>any</u> amount for which a gift election is made.	_____	_____	_____
.4) Gift to non-US citizen spouse in excess of \$100,000.	_____	_____	_____
.5) Gift to non-US citizen spouse of a terminable interest (regardless of amount). Note exception for certain life estates with a power of appointment.	_____	_____	_____
.6) Gift of qualified terminable interest property (QTIP) of any amount.	_____	_____	_____
.7) Gift by nonresident, non-US citizen, of tangible US situs property in excess of limitations previously described. Note special rule that taxes gifts of intangible property in certain cases.	_____	_____	_____
102) If the return is being prepared for deceased donor, ascertain proper due date if donor died prior to July 15 of the gift year.	_____	_____	_____
103) If donor is married:			
.1) Determine if gifts are to be treated as "split" with donor's spouse. (Note that spouse's consent is required.)	_____	_____	_____
.2) If the election is to be made, determine if a separate Form 709 is required.	_____	_____	_____
104) Determine if taxpayer is eligible to file Form 709-A.	_____	_____	_____

U.S. GIFT (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN CHECKLIST
FORM 709 As Revised November 1993
For Gifts Made After December 31, 1991

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
105) Attach Form 4868 or other extension request, if applicable.	_____	_____	_____
106) Determine the need to hire an appraiser(s). Appraisals involving real estate should consider the potential applicability of discounts for fractional interests (including costs of partition) and for potential environmental law exposure. Appraisals involving businesses should consider the potential applicability of discounts for minority interests, blockage, and contractual or statutory restrictions on transferability.	_____	_____	_____
107) Consider the potential gift tax implications of the following:			
.1) Lapse or release of a general power of appointment.	_____	_____	_____
.2) Formation or recapitalization of a closely-held corporation or a partnership.	_____	_____	_____
.3) Creation or transfer of below market interests in light of § 7520.	_____	_____	_____
108) Consider having the donee execute a qualified disclaimer of the gifted property to remove the property from his or her gross estate.	_____	_____	_____
200) SCHEDULE A—COMPUTATION OF TAXABLE GIFTS			
201) Determine if transfers were made to grandchildren or other "skip" persons.	_____	_____	_____
202) If transfers were made to a trust:			
.1) Attach a copy of the trust document to Form 709.	_____	_____	_____
.2) Obtain trust's TIN and required information about trust's beneficiaries.	_____	_____	_____
203) For real estate, attach a copy of the appraisal and the legal description for each parcel.	_____	_____	_____
204) For an interest in a closely-held business, attach the required financial data and an appraisal or calculation of the per share value.	_____	_____	_____
205) Consider the special valuation rules and elections pursuant to § 2701 for transfers of certain interests in corporations and partnerships.	_____	_____	_____
206) Consider the special valuation rules of § 2702 for transfers in trust.	_____	_____	_____
207) For publicly traded stock, include number of shares, common or preferred and CUSIP number, if available.	_____	_____	_____

U.S. GIFT (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN CHECKLIST
FORM 709 As Revised November 1993
For Gifts Made After December 31, 1991

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
208) For notes, include name of maker, maturity date, principal amount, unpaid principal, interest rate, compounding (yes or no) and date to which interest has been paid.	_____	_____	_____
209) For life insurance policies, include insurer, policy number and a completed Form 712—Life Insurance Statement.	_____	_____	_____
210) Consider the availability of marketability, minority and other valuation discounts.	_____	_____	_____
300) SCHEDULE B—GIFTS FROM PRIOR PERIODS			
301) Obtain and review prior gift tax returns.	_____	_____	_____
302) Inquire as to the existence of prior unreported gifts.	_____	_____	_____
303) If prior taxable gifts were unreported, recalculate the amount of unified credit claimed.	_____	_____	_____
400) SCHEDULE C—GENERATION SKIPPING TRANSFER (GST) TAX			
401) Determine if the gift tax exclusion is allowable.	_____	_____	_____
402) Review returns after 1985 for use of the GST tax exemption (one million dollars).	_____	_____	_____
403) Consider confirming with client, preferably in writing, whether the GST tax exemption should be allocated to current gifts. Note that the GST tax exemption is automatically allocated to inter vivos direct skips unless the donor elects to the contrary. To elect out, Form 709 must be filed with the appropriate election attached.	_____	_____	_____
500) OTHER REQUIREMENTS			
501) Consider disclosure of all gifts subject to § 2701 and § 2702 in order to start the statute of limitations with respect to such gifts.	_____	_____	_____
502) Consider state gift tax return filing requirements.	_____	_____	_____

COMMENTS OR PLANNING SUGGESTIONS:

TAX-EXEMPT ORGANIZATION CHECKLIST

The checklists developed by the Committee are contained on the following pages. They are intended to highlight certain items critical to the preparation of the return without reiterating the detailed instructions provided by the I.R.S.

The Committee has also prepared an Organizer for Tax Exempt Organizations which is a good source for more detailed information necessary to prepare Form 990. The Organizer can be used to gather the necessary information from the client as well as to assist the preparer in completion of the return.

The organizer is located in the Practice Guides section of the materials.



MINI-CHECKLIST
TAX-EXEMPT ORGANIZATION RETURN
1996 - FORM 990

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
GENERAL INFORMATION			10. Prepare permanent file schedule to keep track of cost on securities carried at market.	<input type="checkbox"/>	<input type="checkbox"/>
1. Review prior year returns, workpapers, correspondence and audit results.	<input type="checkbox"/>	<input type="checkbox"/>	BALANCE SHEET		
2. Review IRS determination letter.	<input type="checkbox"/>	<input type="checkbox"/>	1. Attach schedule reconciling opening balance sheet if changes made for SFAS 117.	<input type="checkbox"/>	<input type="checkbox"/>
3. Review activities for exempt qualification (see '96 TBR for changes to private inurement provisions).	<input type="checkbox"/>	<input type="checkbox"/>	2. Cross reference net assets to page 1.	<input type="checkbox"/>	<input type="checkbox"/>
4. Consider engagement letter.	<input type="checkbox"/>	<input type="checkbox"/>	UBIT GENERAL INFORMATION		
5. Consider filing 990-EZ.	<input type="checkbox"/>	<input type="checkbox"/>	1. Determine if there is an unrelated trade or business.	<input type="checkbox"/>	<input type="checkbox"/>
6. Consider \$25,000 gross receipts test.	<input type="checkbox"/>	<input type="checkbox"/>	2. Determine if a partnership interest is owned.	<input type="checkbox"/>	<input type="checkbox"/>
7. Determine if private foundation. Complete 990-PF.	<input type="checkbox"/>	<input type="checkbox"/>	3. Determine if there is debt financed property.	<input type="checkbox"/>	<input type="checkbox"/>
8. Update pro forma information.	<input type="checkbox"/>	<input type="checkbox"/>	4. Review royalty agreements.	<input type="checkbox"/>	<input type="checkbox"/>
9. Determine if there are related organizations.	<input type="checkbox"/>	<input type="checkbox"/>	5. Complete Form 990-T Checklist if any of the above exist.	<input type="checkbox"/>	<input type="checkbox"/>
10. Consider any change in activities.	<input type="checkbox"/>	<input type="checkbox"/>	MISCELLANEOUS		
11. Consider filing a group return.	<input type="checkbox"/>	<input type="checkbox"/>	1. Verify that statements in Parts III & VIII correspond.	<input type="checkbox"/>	<input type="checkbox"/>
12. Determine if state return is required.	<input type="checkbox"/>	<input type="checkbox"/>	2. Inquire if information returns were filed.	<input type="checkbox"/>	<input type="checkbox"/>
13. Determine if state registration is required.	<input type="checkbox"/>	<input type="checkbox"/>	3. Inquire if employment taxes paid/timely deposits.	<input type="checkbox"/>	<input type="checkbox"/>
REVENUE/EXPENSES			4. Review independent contractor arrangements.	<input type="checkbox"/>	<input type="checkbox"/>
1. List all officers, directors, advisors, consultants and compensation, if any.	<input type="checkbox"/>	<input type="checkbox"/>	5. Consider a 501(h) election for lobbying expenditures.	<input type="checkbox"/>	<input type="checkbox"/>
2. Determine if there are any excess benefit transactions with disqualified persons. (See '96 TBR)	<input type="checkbox"/>	<input type="checkbox"/>	6. For lobbying expenses, inquire whether the organization has elected to pay the proxy tax or report the unallowable portion to members.	<input type="checkbox"/>	<input type="checkbox"/>
3. List program services rendered.	<input type="checkbox"/>	<input type="checkbox"/>	7. Determine if Form 8282 is required for sales of donated property.	<input type="checkbox"/>	<input type="checkbox"/>
4. List revenue from program services.	<input type="checkbox"/>	<input type="checkbox"/>	8. Determine if a series 5500 form is required.	<input type="checkbox"/>	<input type="checkbox"/>
5. Ensure that cash method of accounting is used in Schedule A, Part IV.	<input type="checkbox"/>	<input type="checkbox"/>	9. Inquire if required contemporaneous substantiations were provided on donations of \$250 or more.	<input type="checkbox"/>	<input type="checkbox"/>
6. Determine if donated services and facilities are excluded from Parts I and II.	<input type="checkbox"/>	<input type="checkbox"/>	10. Inquire if required statement was provided to donor for <i>quid pro quo</i> contribution over \$75 received.	<input type="checkbox"/>	<input type="checkbox"/>
7. Verify that the contribution portion of receipts from fundraising is reported on line 1a.	<input type="checkbox"/>	<input type="checkbox"/>	11. Attach extension requests.	<input type="checkbox"/>	<input type="checkbox"/>
8. Break out expenses for line 9b that have been netted in the financial statements.	<input type="checkbox"/>	<input type="checkbox"/>	12. Prepare filing instructions/transmittal.	<input type="checkbox"/>	<input type="checkbox"/>
9. Complete Part IV A & B if the organization has adopted SFAS 116 and 117.	<input type="checkbox"/>	<input type="checkbox"/>	13. Note tax planning suggestions.	<input type="checkbox"/>	<input type="checkbox"/>

TAX-EXEMPT ORGANIZATION RETURN CHECKLIST

1996 - FORM 990

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review for correctness and changes in the organization's name, address, fiscal year, identification number, type of organization, and IRS and state processing center. Note changes.	_____	_____	_____
102) Review prior year returns, memos, workpapers and correspondence files.	_____	_____	_____
103) Review permanent file and IRS determination letter.	_____	_____	_____
104) Consider obtaining a signed engagement letter.	_____	_____	_____
105) Determine if accounting methods used are comparable to the preceding year unless changes are approved or required. (If SFAS 116 and 117 have been adopted see Notice 96-30.)	_____	_____	_____
106) Inquire whether the organization has made or received any below-market-rate loans. If so, determine imputed interest consequences.	_____	_____	_____
107) If the organization has been examined by the Internal Revenue Service or state taxing authorities:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine if the agent's adjustments affect income tax returns of years other than those audited.	_____	_____	_____
200) DETERMINE THE APPROPRIATE FORMS TO FILE			
201) If the organization is exempt from tax under § 501(a), review the IRS list of organizations excepted from filing annual returns.	_____	_____	_____
202) Determine if the organization meets the \$25,000 gross receipts filing requirement test.	_____	_____	_____
203) Determine whether the organization is eligible to file Form 990-EZ.	_____	_____	_____
204) Determine whether the organization is a private foundation required to file Form 990-PF.	_____	_____	_____
205) If the organization is a nonexempt charitable trust (described in § 4947(a)(1)), determine if:			

TAX-EXEMPT ORGANIZATION RETURN CHECKLIST
1996 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.1) The organization is treated as a private foundation, required to file Form 990-PF.	_____	_____	_____
.2) Form 1041 is required.	_____	_____	_____
206) Consider filing a group return.	_____	_____	_____
207) Determine if a state return or registration statement is required. (Note that fundraising in some states may result in a state filing requirement.)	_____	_____	_____
208) For § 501(c)(3) organizations, complete Schedule A.	_____	_____	_____
209) For § 501(c)(7) organizations, determine whether the organization satisfies the gross receipts test required for maintaining its exemption.	_____	_____	_____
210) For § 501(c)(12) organizations, determine whether the organization satisfies the gross income test necessary for exempt status.	_____	_____	_____
300) REVENUE			
301) Contributions:			
.1) Determine that grants received as payment for services are reported as program service revenue and not as contributions.	_____	_____	_____
.2) Inquire about contributions received in a form other than cash.	_____	_____	_____
(a) Determine that donated services, materials, or facilities are excluded in Parts I & II.	_____	_____	_____
(b) For any noncash contribution that is subject to an outstanding debt, determine that the asset has been recorded at its full market value and that the debt has been recorded as a liability.	_____	_____	_____
(c) For other noncash contributions, determine that the contributions have been reported at their market value as of the date of the contribution.	_____	_____	_____
.3) When classifying contributions for reporting purposes, determine that:			
(a) Membership dues and assessments representing contributions rather than payments for benefits received are reported as direct public support.	_____	_____	_____
(b) The contribution portion of receipts from fundraising activities is reported as direct public support.	_____	_____	_____

TAX-EXEMPT ORGANIZATION RETURN CHECKLIST
1996 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(c) Contributions received from other closely associated organizations are reported as indirect public support.	_____	_____	_____
(d) Contributions received from federated fundraising agencies (such as the United Way) through general solicitation campaigns are reported as indirect public support.	_____	_____	_____
.4) Determine if an attached schedule detailing certain contributions is required.	_____	_____	_____
.5) For a <i>quid pro quo</i> contribution in excess of \$75 received by a charitable organization, ascertain that a written statement to the donor was provided that:			
(a) informs the donor that the amount of the contribution that is deductible is limited to the excess of the amount contributed by the donor over the value of the goods or services provided, and	_____	_____	_____
(b) includes a good faith estimate of the value of goods or services received.	_____	_____	_____
.6) For contributions of \$250 or more received by a charitable organization, inquire if contemporaneous substantiation was provided to the donor.	_____	_____	_____
.7) Ensure that the cash method of accounting is used in determining the support test, Schedule A, Part IV.	_____	_____	_____
302) Program Service Revenue			
.1) Ascertain the organization's sources of exempt function income and determine that these sources are properly reported.	_____	_____	_____
.2) Determine that income from program-related investments is properly reported as program service revenue.	_____	_____	_____
.3) If the organization had sales of inventory items and the organization is not a hospital, university, or college, determine that these sales are NOT reported as program service revenue.	_____	_____	_____
303) Determine that amounts received from members and affiliates that are not considered contributions are reported as membership dues and assessments.	_____	_____	_____
304) Determine that income from associates dues which are for the sale of, or provision of access to, goods or services are reported as unrelated trade or business income.	_____	_____	_____

TAX-EXEMPT ORGANIZATION RETURN CHECKLIST
1996 - FORM 990

DONE N/A COMMENTS OR
EXPLANATION

305) Determine that investment income from debt and equity securities is reported separately from investment income from savings and temporary cash investments.

306) Determine that any capital gain dividends are properly reported as gains from investment securities.

307) Determine if investment income includes mark-to-market adjustment on securities. (If so, prepare a permanent file schedule to keep track of costs.)

308) Determine that income and expense are reported at the gross amounts for items such as:

.1) Rental of investment property.

.2) Sales of securities.

.3) Sales of other types of investments and all other noninventory assets.

309) Fundraising events and activities:

.1) Inquire about amounts received from fundraising activities that are characterized as revenue (i.e., not contributions).

.2) Break out expenses that have been netted for financial reporting.

.3) If the organization had revenue from fundraising activities, consider the need to attach a schedule of detailed information.

.4) Inquire whether the organization has retained samples of its fundraising materials.

400) EXPENSES

401) For § 4947(a)(1) charitable trusts and § 501(c)(3) and (4) organizations, determine that expense classifications have been segregated into the required functional expense categories.

402) Determine that scholarship, fellowship, and research grants awarded by the organization are properly reported.

403) Determine that salaries and wages have been properly classified between compensation paid to officers, directors, and key employees and all other compensation.

404) Consider various depreciation methods and lives that may be used.

TAX-EXEMPT ORGANIZATION RETURN CHECKLIST
1996 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
405) Consider the need to attach a schedule detailing the computation of depreciation. Determine if Form 4562 is appropriate.	_____	_____	_____
406) If the organization included in program service expenses any joint costs from a combined educational campaign and fundraising solicitation, consider the need to disclose additional information.	_____	_____	_____
407) Determine that a detailed description of the organization's four largest program services is provided along with a schedule listing the organization's other program services. The reporting of expense totals is required only for organizations required to report expenses on a functional basis.	_____	_____	_____
 500) BALANCE SHEET			
501) Determine that non-interest-bearing cash accounts are segregated from interest-bearing cash and investment accounts on the balance sheet.	_____	_____	_____
502) Regarding receivables, inquire whether there are:			
.1) Pledges receivable.	_____	_____	_____
.2) Grant receivables from governmental units, foundations, or other organizations.	_____	_____	_____
.3) Receivables from officers, directors, trustees, or key employees.	_____	_____	_____
.4) Other notes or loans receivable.	_____	_____	_____
(a) If so, determine that notes acquired as investments are separately identified and reported from notes that are program-related investments.	_____	_____	_____
(b) Consider the need to attach a detail schedule.	_____	_____	_____
503) Inquire whether there are:			
.1) Program-related investments.	_____	_____	_____
.2) Land, buildings, or equipment held for investment.	_____	_____	_____
504) If the organization has notes, mortgages, and loans payable obtain details of:			
.1) Amounts payable to officers, directors, trustees, or key employees.	_____	_____	_____
.2) Mortgages payable.	_____	_____	_____
.3) Other outstanding notes payable.	_____	_____	_____

TAX-EXEMPT ORGANIZATION RETURN CHECKLIST
1996 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
505) Fund balances or net assets:			
.1) Determine that all funds without donor imposed restrictions have been shown as unrestricted.	_____	_____	_____
.2) Determine that funds with temporary donor restrictions are so classified.	_____	_____	_____
.3) Determine that the fund balances for permanent endowment funds and term endowment funds are reported as permanently restricted funds.	_____	_____	_____
.4) Verify that mark-to-market adjustments are reported as a part of other changes in net assets on page 1.	_____	_____	_____
.5) Cross reference total to page 1.	_____	_____	_____
600) LIST OF OFFICERS, DIRECTORS, TRUSTEES, AND KEY EMPLOYEES			
601) Review definition of key employee and determine whether the organization employs personnel satisfying this definition.	_____	_____	_____
602) Obtain a list of all officers, directors, trustees, and key employees, including their names and addresses.	_____	_____	_____
603) Inquire about the total compensation package of the organization's officers, directors, and key employees. Report items such as:			
.1) Salary, fee, bonuses, and severance payments.	_____	_____	_____
.2) Deferred compensation arrangements (whether or not funded; whether or not vested; whether or not the plan is a qualified plan under § 401(a)).	_____	_____	_____
.3) Expense allowances or reimbursements.	_____	_____	_____
.4) The value of the personal use of housing, automobiles, or other assets provided by the organization.	_____	_____	_____
.5) Other taxable and nontaxable fringe benefits (i.e., health and life insurance).	_____	_____	_____
604) If an officer, director, trustee, or key employee received compensation from related organizations, consider need to attach detail statement.	_____	_____	_____
605) Consider reasonableness of compensation.	_____	_____	_____

TAX-EXEMPT ORGANIZATION RETURN CHECKLIST
1996 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
606) Review all arrangements between disqualified persons and organizations described in § 501(c)(3) or 501(c)(4) to determine if there are any excess benefit transactions. (See '96 TBR)	_____	_____	_____
700) OTHER INFORMATION			
701) Inquire whether the organization has had significant changes in the kind of activities conducted to further its exempt purpose. Consider need to attach detail explanation.	_____	_____	_____
702) Determine that no part of the earnings of a § 501(c)(3) or § 501(c)(4) organization inure to the benefit of a private shareholder or individual. (See '96 TBR)	_____	_____	_____
703) Inquire whether the organization has revised its governing documents. Consider need to attach conformed copy of changes.	_____	_____	_____
704) Complete Form 990-T Checklist if:			
.1) There is an unrelated trade or business.	_____	_____	_____
.2) There is debt financed property.	_____	_____	_____
.3) A partnership interest is owned.	_____	_____	_____
.4) Income is received from a royalty agreement.	_____	_____	_____
705) Determine if the organization owned a 50% or greater interest in any taxable corporation or partnership during the year. If so, properly report:	_____	_____	_____
.1) Name, address, and identification number of taxable subsidiary.	_____	_____	_____
.2) Percentage of ownership interest.	_____	_____	_____
.3) Nature of the subsidiary's business activities.	_____	_____	_____
.4) Total income and end-of-year assets of the subsidiary.	_____	_____	_____
706) Consider setting up multi-tiered structure for taxable activities.	_____	_____	_____
707) Determine if there was a liquidation, dissolution, termination, or substantial contraction.	_____	_____	_____
708) Determine if the organization is related to other organizations.	_____	_____	_____
709) Determine if Form 1120-POL is required.	_____	_____	_____

TAX-EXEMPT ORGANIZATION RETURN CHECKLIST
1996 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
710) Determine if the organization has properly reported solicited contributions that are not tax deductible.	_____	_____	_____
800) ANALYSIS OF INCOME-PRODUCING ACTIVITIES			
801) Complete analysis of income-producing activities and correlate related income with program service detail at 302.	_____	_____	_____
802) For income related to the organization's exempt purpose, provide required explanations of the relationship of activities to the accomplishment of exempt purposes.	_____	_____	_____
803) Determine there is a proper correlation between the information in Parts III and VIII.	_____	_____	_____
804) For other income, review the list of exclusion codes to identify revenue excludable from unrelated business taxable income.	_____	_____	_____
805) Compare amounts reported in Part VII to amounts reported in Part I.	_____	_____	_____
900) MISCELLANEOUS			
901) Reconcile income and expense per books with return.			
.1) For organizations that conform to SFAS 116 and 117 complete part IV A and B.	_____	_____	_____
.2) For other organizations, prepare schedule for files.	_____	_____	_____
902) Review instructions and determine that all appropriate attachments have been prepared.	_____	_____	_____
903) Determine if Form 8282 is required for sales of donated property.	_____	_____	_____
904) Determine if a series 5500 form is required for qualified plans.	_____	_____	_____
905) Determine if a series 5500 form is required for § 501(c)(9) and § 501(c)(17) organizations.	_____	_____	_____
906) Inquire whether the organization has filed all required information returns (1098 and 1099 series) and whether the personal use portion of employer property, expense reimbursements under "unaccountable plans," and deferred compensation information has been included in employees' W-2s.	_____	_____	_____
907) Review all independent contractor arrangements to ascertain if there are any improperly classified service providers.	_____	_____	_____
908) Inquire if the organization is subject to the electronic funds transfer requirements.	_____	_____	_____

TAX-EXEMPT ORGANIZATION RETURN CHECKLIST
1996 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
909) Advise exempt organizations (§§ 501(c)(4), (5), & (6)) that they have the following options available for lobbying expenditures:			
.1) Pay 35% proxy tax on lobbying expenditures. Member dues would be deducted in full.	_____	_____	_____
.2) Provide notice to members setting forth the estimated percentage of dues attributed to lobbying for the forthcoming year. That percentage of member dues would be nondeductible.	_____	_____	_____
a) Prepare required disclosure.	_____	_____	_____
b) Prepare election on treatment of expenditures in excess of percentage reported to members.	_____	_____	_____
910) Advise § 501(c)(3) organizations that RRA '93 precludes a donor's ability to claim a deduction for contributions in cases where the charity engages in lobbying activities that pertain directly to the donor's business.	_____	_____	_____
911) Consider § 501(h) lobbying expenditure election for qualified § 501 (c)(3) organizations.	_____	_____	_____
911) Attach extension requests.	_____	_____	_____
912) Prepare filing instructions and transmittal letter.	_____	_____	_____
913) Note planning suggestions.	_____	_____	_____

COMMENTS OR EXPLANATIONS

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
1996 FORM 990-T

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Determine if the organization is required to file a business income tax return:			
.1) Determine if the organization has unrelated business income.	_____	_____	_____
.a) Determine if the income:			
(i) Is from a trade or business that is regularly carried on; and	_____	_____	_____
(ii) Is not substantially related to the exempt purposes for which the organization was formed.	_____	_____	_____
.b) Review the special rules for:			
(i) Debt-financed property.	_____	_____	_____
(ii) Foreign organizations.	_____	_____	_____
(iii) Social clubs.	_____	_____	_____
(iv) Voluntary employee benefit organizations.	_____	_____	_____
(v) Supplemental unemployment compensation trusts.	_____	_____	_____
(vi) Organizations whose exclusive function is to form part of a qualified group legal services plan.	_____	_____	_____
(vii) Veterans organizations.	_____	_____	_____
.2) Determine if the unrelated gross business income equals or exceeds \$1,000.	_____	_____	_____
.3) Determine if the organization is subject to the proxy tax for lobbying activities under § 6033(e).	_____	_____	_____
200) EXCLUSIONS			
201) Exclude income for a trade or business:			
.1) Where substantially all the work in carrying on such trade or business is performed for the organization without compensation; or	_____	_____	_____

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
1996 - FORM 990-T

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Which is carried on, in the case of an organization described in § 501 (c)(3) or in the case of a college or university described in § 511(a)(2)(B), by the organization primarily for the convenience of its members, students, patients, officers, or employees; or	_____	_____	_____
.3) Where substantially all of the merchandise sold has been received by the organization as gifts or contributions.	_____	_____	_____
202) If the organization is described in § 501(c)(3), (4) or (5) exclude income from a qualified public entertainment activity.	_____	_____	_____
203) If the organization is described in § 501(c)(3), (4), (5) or (6) exclude income from a qualified convention or trade show activity.	_____	_____	_____
204) For a hospital described in § 170(b)(1)(A)(iii) exclude income from furnishing one or more of the services described in § 501(e)(1)(A) to one or more hospitals described in § 170(b)(1)(A)(iii) if:			
.1) Such services are furnished solely to hospitals which have facilities to serve not more than 100 inpatients;	_____	_____	_____
.2) Such services, if performed on its own behalf by the recipient hospital, would constitute activities in exercising or performing the purpose or function constituting the basis for its exemption; and	_____	_____	_____
.3) Such services are provided at a fee or cost which does not exceed the actual cost of providing such services, such cost including straight line depreciation and a reasonable amount for return on capital goods used to provide such services.	_____	_____	_____
205) Exclude income from conducting qualified bingo games.	_____	_____	_____
206) For an organization to which contributions are deductible under § 170(c)(2) or (3), exclude income from:			
.1) the distribution of low cost articles if the distribution of such articles is incidental to the solicitation of charitable contributions, or	_____	_____	_____
.2) any trade or business which consists of:			
.a) exchanging with another such organization, names and addresses of donors, or	_____	_____	_____
.b) renting names or addresses to another such organization.	_____	_____	_____

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST**1996 - FORM 990-T**

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
207) Exclude income from research for the United States, or its agencies or instrumentalities, or any state or political subdivision.	_____	_____	_____
208) For a college, university, or hospital exclude income from research performed for any person.	_____	_____	_____
209) For an organization operated primarily for purposes of carrying on fundamental research, exclude income if the results are freely available to the general public.	_____	_____	_____
210) For a religious order, or educational organization maintained by the religious order, exclude income for services provided under federal license.	_____	_____	_____
300) INCOME			
301) Determine that advance payments are reported per Reg. § 1.451-5.	_____	_____	_____
302) Determine that service revenue deemed uncollectible is not accrued.	_____	_____	_____
303) Report the appropriate amount of gain or loss from the sale, exchange, or other disposition of unrelated debt-financed property.	_____	_____	_____
304) Report income from the sale of stock in trade or other property of a kind which would properly be includible in inventory if on hand at the close of the taxable year.	_____	_____	_____
305) Report income from the sale of property held primarily for sale to customers in the ordinary course of the trade or business, unless the property meets the exception in § 512 (b)(16)(A).	_____	_____	_____
306) If the organization maintains inventory, determine if § 263A rules apply.	_____	_____	_____
307) If the organization is a member of a partnership that carries on an unrelated trade or business:			
.1) Determine that its allocable share of gross income and deductions have been included in UBI.	_____	_____	_____
.2) Determine if the at-risk or passive activity rules apply.	_____	_____	_____
308) Determine if the organization has included its share of rents from:			
.1) Personal property leased with real property, if the rents from the personal property are more than 10% of the total rents received or accrued, or	_____	_____	_____
.2) Real and personal property if:			

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST**1996 - FORM 990-T**

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.a) More than 50% of the rents are for the personal property, or	_____	_____	_____
.b) The amount of rent depends on the income or profits derived by any person from the property leased.	_____	_____	_____
309) Determine that income from occupying space when personal services are provided (e.g., hotel) is reported as unrelated business income unless it meets another exemption.	_____	_____	_____
310) Determine that the organization has included income (e.g., dividends, interest, annuities, royalties, and rents) attributable to property held to produce income and with respect to which there is an acquisition indebtedness, except for:			
.1) Income from property substantially all the use of which contributes importantly (aside from the need for funds) to the organization's performance of its exempt functions;	_____	_____	_____
.2) Income which has already been subject to tax under the unrelated business tax;	_____	_____	_____
.3) Income from property which is used as part of a research activity which is exempted;	_____	_____	_____
.4) Income from property which is used in a trade or business activity that qualifies for the convenience, volunteer labor, or thrift shop exceptions;	_____	_____	_____
.5) Income from real property that is to be used by the exempt organization within 10 years and is within the "neighborhood" (See special rule for churches.); or	_____	_____	_____
.6) Income from real property investments of educational institutions (as described in § 170(b)(1)(A)(ii)), qualified § 401 trust, and § 501 (c)(25) title holding companies are excluded.	_____	_____	_____
311) If the organization received income (e.g., interest, annuities, royalties, and rents) from an 80% controlled organization:			
.1) Include 100% of the payments from a taxable subsidiary.	_____	_____	_____
.2) Determine the includable ratio for payments from an exempt subsidiary.	_____	_____	_____
.3) Consider moving the activity to a subsidiary of the controlled organization (third tier) to potentially eliminate these payments from UBI in the future.	_____	_____	_____

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
1996 - FORM 990-T

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
312) Determine if the organization has included income from the commercial exploitation of its name, goodwill or other intangible assets created by its exempt activities (e.g., endorsements made by a research organization, rentals of mailing lists, affinity card programs).	_____	_____	_____
313) Determine if the organization has included income from the sale of advertising in a periodical.	_____	_____	_____
400) DEDUCTIONS			
401) Determine that direct expenses have a "proximate and primary relationship" to carrying on the business. (Where personnel, facilities, etc., are used both for exempt activities and unrelated activities, such costs are allocated on a "reasonable basis.")	_____	_____	_____
402) Determine that general and administrative expenses are allocated using a method that shows a direct link between the cost and the unrelated activity.	_____	_____	_____
403) Consider the limitations on allocating costs to exploited exempt activity income.	_____	_____	_____
404) Consider the limitations on allocating costs to advertising income.	_____	_____	_____
405) Consider the limitation on the deductibility of capital losses.	_____	_____	_____
406) Consider charitable contribution rules and limitations.	_____	_____	_____
407) Consider limitations on deductions between related parties.	_____	_____	_____
408) Inquire whether the organization can substantiate by adequate records expenses claimed for entertainment, gifts, travel and conventions.	_____	_____	_____
409) Limit deductions for meals and entertainment to allowable percentage.	_____	_____	_____
410) Determine that retirement plan contributions are within allowable limits and are made timely.	_____	_____	_____
411) Consider all depreciation requirements and options including:			
.1) Section 179 election.	_____	_____	_____
.2) Methods and lives.	_____	_____	_____
.3) Requirements relating to listed property.	_____	_____	_____
412) Determine the amount of the specific deduction.	_____	_____	_____

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
1996 - FORM 990-T

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
500) TAX COMPUTATIONS AND CREDITS			
501) Compute alternative minimum tax.	_____	_____	_____
502) Consider application of environmental tax.	_____	_____	_____
503) Consider application of proxy tax.	_____	_____	_____
504) Consider tax credits.	_____	_____	_____
505) Consider any limitations on the use of NOLs and credits.	_____	_____	_____
506) Confirm current year estimated tax payments, prior year overpayments applied and extension payments.	_____	_____	_____
507) Consider underpayment penalties.	_____	_____	_____
508) Determine need for subsequent period estimated tax payments.	_____	_____	_____

COMMENTS OR EXPLANATIONS

MINI-CHECKLIST INDIVIDUAL INCOME TAX RETURN 1996 - FORM 1040

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
<div style="border: 1px solid black; padding: 2px; display: inline-block;">GENERAL INFORMATION</div>					
1. Confirm taxpayer information, filing status and dependents. See SBJPA 1996 for new TIN requirements for dependents.	<input type="checkbox"/>	<input type="checkbox"/>	Moving expense.	<input type="checkbox"/>	<input type="checkbox"/>
			Casualty losses.	<input type="checkbox"/>	<input type="checkbox"/>
			Allocation and limitation of interest.	<input type="checkbox"/>	<input type="checkbox"/>
			Alimony.	<input type="checkbox"/>	<input type="checkbox"/>
2. Complete Schedule H.	<input type="checkbox"/>	<input type="checkbox"/>	2. Limit on meals and entertainment.	<input type="checkbox"/>	<input type="checkbox"/>
3. Review prior year returns, workpapers, correspondence, and audit results.	<input type="checkbox"/>	<input type="checkbox"/>	3. Consider Form 8283 for noncash donations.	<input type="checkbox"/>	<input type="checkbox"/>
4. Consider signed engagement letter.	<input type="checkbox"/>	<input type="checkbox"/>	4. Consider limitations on deductibility of dues and lobbying expenses.	<input type="checkbox"/>	<input type="checkbox"/>
5. Check for carryovers and update schedules including effect of prior period tax audits.	<input type="checkbox"/>	<input type="checkbox"/>	<div style="border: 1px solid black; padding: 2px; display: inline-block;">DEPRECIATION/AMORTIZATION</div>		
6. Consider below-market-rate loan rules.	<input type="checkbox"/>	<input type="checkbox"/>	1. Consider the following:		
7. Review accounting methods.	<input type="checkbox"/>	<input type="checkbox"/>	Section 179 election.	<input type="checkbox"/>	<input type="checkbox"/>
8. Properly report adjustments for accounting method changes.	<input type="checkbox"/>	<input type="checkbox"/>	Rules for MACRS, ACRS and non-recovery property.	<input type="checkbox"/>	<input type="checkbox"/>
9. Review pro forma for accuracy.	<input type="checkbox"/>	<input type="checkbox"/>	Methods and lives.	<input type="checkbox"/>	<input type="checkbox"/>
10. Consider filing Form 8821 or 2848.	<input type="checkbox"/>	<input type="checkbox"/>	Listed property.	<input type="checkbox"/>	<input type="checkbox"/>
			Capitalization of leased property.	<input type="checkbox"/>	<input type="checkbox"/>
			Correct amortization period.	<input type="checkbox"/>	<input type="checkbox"/>
			2. Compute AMT depreciation.	<input type="checkbox"/>	<input type="checkbox"/>
<div style="border: 1px solid black; padding: 2px; display: inline-block;">INCOME</div>					
1. For sales or other disposition of property consider:			<div style="border: 1px solid black; padding: 2px; display: inline-block;">TAX COMPUTATION AND CREDITS</div>		
Recapture.	<input type="checkbox"/>	<input type="checkbox"/>	1. Compute alternative minimum tax.	<input type="checkbox"/>	<input type="checkbox"/>
Installment sales and related interest charge on deferred tax.	<input type="checkbox"/>	<input type="checkbox"/>	2. Compute self-employment tax and deduction (see SBJPA 1996 for retired minister exclusions).	<input type="checkbox"/>	<input type="checkbox"/>
Taxable/deferred gain on sale of residence or other property (SBJPA 1996).	<input type="checkbox"/>	<input type="checkbox"/>	3. Compute all credits, carryovers, recaptures. See SBJPA 1996.	<input type="checkbox"/>	<input type="checkbox"/>
Holding period/basis.	<input type="checkbox"/>	<input type="checkbox"/>	4. Compute tax on premature distributions.	<input type="checkbox"/>	<input type="checkbox"/>
Related party transactions.	<input type="checkbox"/>	<input type="checkbox"/>	5. Claim credit for excess FICA, other withholding/payments.	<input type="checkbox"/>	<input type="checkbox"/>
Like-kind exchanges.	<input type="checkbox"/>	<input type="checkbox"/>	6. Compute underpayment penalties.	<input type="checkbox"/>	<input type="checkbox"/>
2. Consider the following:			7. Prepare estimate vouchers.	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary income on market discount bonds and deferral of related interest expense.	<input type="checkbox"/>	<input type="checkbox"/>	<div style="border: 1px solid black; padding: 2px; display: inline-block;">OTHER</div>		
Annuities (SBJPA 1996), retirement plans, IRAs.	<input type="checkbox"/>	<input type="checkbox"/>	1. Consider risk of accuracy-related penalty. (§ 6662)	<input type="checkbox"/>	<input type="checkbox"/>
Limitations due to at-risk and basis.	<input type="checkbox"/>	<input type="checkbox"/>	2. Compare taxable income to projections.	<input type="checkbox"/>	<input type="checkbox"/>
Passive loss limitations and election.	<input type="checkbox"/>	<input type="checkbox"/>	3. Report tax shelters. Form 8271.	<input type="checkbox"/>	<input type="checkbox"/>
Alimony.	<input type="checkbox"/>	<input type="checkbox"/>	4. Consider election to forego NOL carryback.	<input type="checkbox"/>	<input type="checkbox"/>
Taxability of dividends, interest and capital gain distributions.	<input type="checkbox"/>	<input type="checkbox"/>	5. Consider inclusion of child's taxable income.	<input type="checkbox"/>	<input type="checkbox"/>
Salaries and fringe benefits.	<input type="checkbox"/>	<input type="checkbox"/>	6. Prepare state and local returns.	<input type="checkbox"/>	<input type="checkbox"/>
Rents.	<input type="checkbox"/>	<input type="checkbox"/>	7. Consider other returns (e.g., gift, qualified plans).	<input type="checkbox"/>	<input type="checkbox"/>
Tax benefit rules.	<input type="checkbox"/>	<input type="checkbox"/>	8. Include/attach extension request(s).	<input type="checkbox"/>	<input type="checkbox"/>
Discharge of indebtedness.	<input type="checkbox"/>	<input type="checkbox"/>	9. Note planning suggestions.	<input type="checkbox"/>	<input type="checkbox"/>
Worthless stock/bad debt.	<input type="checkbox"/>	<input type="checkbox"/>			
Limitation on \$5,000 death benefit exclusion (SBJPA 1996).	<input type="checkbox"/>	<input type="checkbox"/>			
Punitive damages (SBJPA 1996).	<input type="checkbox"/>	<input type="checkbox"/>			
Exclusion of employer-provided educational assistance (SBJPA 1996).	<input type="checkbox"/>	<input type="checkbox"/>			
<div style="border: 1px solid black; padding: 2px; display: inline-block;">DEDUCTIONS</div>					
1. Consider the following:					
Home office. Form 8829. (See SBJPA 1996 for expansion of deduction.)	<input type="checkbox"/>	<input type="checkbox"/>			
IRA, SEP, Keogh contribution.	<input type="checkbox"/>	<input type="checkbox"/>			

SHORT VERSION
INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review and update basic taxpayer information (address, dependents, etc.), IRS and other tax processing centers, prior returns, and workpapers. See 1996 "SBJPA" for new TIN requirements for dependents.	_____	_____	_____
102) Determine if taxpayer had household employees. Complete Schedule H.	_____	_____	_____
103) Consider signed engagement letter.	_____	_____	_____
104) Obtain information concerning IRS or state tax audits, and/or correspondence.	_____	_____	_____
105) Check for carryover items and update carryforward schedules including effect of prior period tax audits.	_____	_____	_____
106) Review for adequate interest on new or modified debt instrument.	_____	_____	_____
107) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
108) If accrual method of accounting, note economic performance election.	_____	_____	_____
109) Review computer-generated pro forma for accuracy.	_____	_____	_____
110) Consider filing Form 8821 or 2848.	_____	_____	_____
200) INCOME			
201) Determine tax treatment of interest, dividends, and capital gain distributions and amounts subject to AMT.	_____	_____	_____
202) Determine if alimony paid or received.	_____	_____	_____
203) Sale or other disposition of property:			
.1) Check for recapture items.	_____	_____	_____
.2) Determine that installment sales are properly reported, including related interest charge on deferred tax.	_____	_____	_____
.3) Determine amounts taxable and/or deferred from sale of personal residence.	_____	_____	_____

SHORT VERSION
INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.4) Determine holding period and tax basis of property sold.	_____	_____	_____
.5) Consider rules for like-kind and related party exchanges (Form 8824).	_____	_____	_____
.6) Consider new rules for involuntary conversions of post-1994 Presidentially-declared disasters (SBJPA 1996).	_____	_____	_____
204) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
205) Determine proper reporting of all annuities and qualified retirement plan and IRA distributions, considering the various options for taxing lump-sum distributions from qualified retirement plans. See SBJPA 1996 change for annuities with starting dates after November 18, 1996.	_____	_____	_____
206) Consider limitation on the \$5,000 death benefit exclusion for amounts paid by or on behalf of employer (SBJPA 1996).	_____	_____	_____
207) Consider regular and AMT passive activity loss limitations, carryovers and election. (See Passive Activity Checklist.)	_____	_____	_____
208) Determine that all K-1s have been received and that all items have been properly reported.	_____	_____	_____
209) Consider limitations of § 704(d), § 465 at risk, and/or § 1366(d) basis rules.	_____	_____	_____
210) Consider at risk limitation (Form 6198) and hobby loss rules on sole proprietor Schedule C.	_____	_____	_____
211) Inquire about other possible sources of income such as salaries, rents, taxable fringe benefits, discharge of indebtedness income, gambling and lottery.	_____	_____	_____
212) Consider mark to market rules for "dealers in securities." Note: the expansive definition of "dealers in securities" includes many taxpayers involved in lending and/or seller financed activities.	_____	_____	_____
213) Consider appropriate income inclusion amount for leased vehicles and property. (See Vehicle Related Guides).	_____	_____	_____
214) If the taxpayer recovered amounts previously deducted, consider tax benefit rules.	_____	_____	_____
215) Consider exclusion of employer-provided educational assistance. Consider also limitation on educational assistance for 1996 (SBJPA 1996). Consider amending 1995 return.	_____	_____	_____

SHORT VERSION
INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
216) Consider inclusion requirements for punitive damages received after August 2, 1996 (SBJPA 1996).	_____	_____	_____
300) DEDUCTIONS			
301) Consider home office deduction, limitations and carryovers. (See SBJPA 1996 for changes.)	_____	_____	_____
302) Determine if the taxpayer is entitled to deduction for contribution to IRA, Keogh and/or SEP.	_____	_____	_____
303) Determine the proper allocation of and limitations on deductions for interest and other expenses relating to:			
.1) Investment expenditures. Consider election to treat long-term capital gain as investment income.	_____	_____	_____
.2) Qualified residence interest.	_____	_____	_____
.3) Trade or business expenditures.	_____	_____	_____
.4) Passive activity expenditures.	_____	_____	_____
.5) Tax-exempt investments.	_____	_____	_____
.6) Capitalization of interest during construction.	_____	_____	_____
.7) Interest on qualified plan loans.	_____	_____	_____
.8) Meals and entertainment expenses.	_____	_____	_____
.9) Club dues.	_____	_____	_____
.10) Lobbying expenses.	_____	_____	_____
.11) Self-employed health insurance.	_____	_____	_____
304) Consider requirement to file Form 8283 for charitable contributions other than cash.	_____	_____	_____
305) Inquire about other possible deductions such as charitable contributions, medical expense, taxes, moving expenses, employee business expense, worthless securities, § 1244 stock, casualty losses, vacation homes, etc.	_____	_____	_____

SHORT VERSION
INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
400) DEPRECIATION			
401) Consider all depreciation requirements and options including:			
.1) § 179 election.	_____	_____	_____
.2) Separate rules for non-recovery property, ACRS and MACRS.	_____	_____	_____
.3) Methods and lives.	_____	_____	_____
.4) Requirements relating to listed property.	_____	_____	_____
.5) Determine if leased property should be capitalized.	_____	_____	_____
.6) Consider 36-month depreciation rules for software.	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods. (See RRA '93)	_____	_____	_____
500) TAX COMPUTATION AND CREDITS			
501) Compute tax, including alternative minimum tax.	_____	_____	_____
502) Compute self-employment tax and related deduction. See SBJPA 1996 for exclusion of minister retirement benefits.	_____	_____	_____
503) Compute all applicable credits including carryovers. See SBJPA 1996.	_____	_____	_____
504) Compute credit recapture.	_____	_____	_____
505) Compute tax on premature distributions from retirement accounts and annuities and excess accumulation tax on excess distributions.	_____	_____	_____
506) Claim excess FICA, other withholding, estimated and extension tax payments.	_____	_____	_____
507) Prepare estimated tax vouchers.	_____	_____	_____
508) If estimate is based on prior year, determine if 100% or 110% rule applies.	_____	_____	_____
509) Consider IRA/retirement plan excise taxes.	_____	_____	_____
510) Compute tax underpayment penalties.	_____	_____	_____
600) OTHER REQUIREMENTS			
601) Compare taxable income to projections.	_____	_____	_____

SHORT VERSION
INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
602) Determine if Form 8271 is required for tax shelters.	_____	_____	_____
603) Consider capitalization of carrying charges on non-productive property.	_____	_____	_____
604) Consider election to forego net operating loss carryback.	_____	_____	_____
605) Consider need to disclose taxable income information on dependent's returns.	_____	_____	_____
606) If parent elects to report child's interest and dividends, prepare Form 8814.	_____	_____	_____
607) Inquire if the taxpayer has required records for travel, entertainment, gift and listed property deductions.	_____	_____	_____
608) Consider risk of accuracy-related penalty. (§ 6662)	_____	_____	_____
609) Prepare state and local tax returns.	_____	_____	_____
610) Inquire whether taxpayer has completed all information returns (W-2s, 1099 series, Form 8300).	_____	_____	_____
611) Inquire if employment taxes were timely deposited.	_____	_____	_____
612) Advise taxpayers with employee benefit plans of return filing requirements.	_____	_____	_____
613) Inquire if gift tax return is required.	_____	_____	_____
614) Include Form 1040V.	_____	_____	_____
615) Include/attach extension request(s).	_____	_____	_____
616) Note tax planning suggestions.	_____	_____	_____

COMMENTS OR EXPLANATIONS

INDIVIDUAL INCOME TAX RETURN CHECKLIST

1996 - FORM 1040

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review the taxpayer's name, age, social security number, address, occupation, filing status, number of exemptions and other dependents, and IRS and other tax processing centers. Obtain social security numbers for dependents. See SBJPA 1996 for new TIN requirements for dependents. Note changes.	_____	_____	_____
102) Determine if taxpayer had household employees.	_____	_____	_____
.1) Obtain federal employer identification number.	_____	_____	_____
.2) Obtain state reporting number.	_____	_____	_____
.3) Complete Schedule H.	_____	_____	_____
.4) Obtain copy of W-2 form(s).	_____	_____	_____
.5) Obtain copy of state unemployment return(s).	_____	_____	_____
103) Review prior year returns, memos, workpapers and correspondence files.	_____	_____	_____
104) Consider signed engagement letter.	_____	_____	_____
105) If the taxpayer has been examined by the Internal Revenue Service or state or local taxing authorities:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine that the agent's adjustments have been entered in the taxpayer's records and appropriate carryforward workpapers.	_____	_____	_____
.3) If the agent's adjustments affect income tax returns of years other than those audited, or the corresponding federal or state returns for the same year, consider filing amended returns.	_____	_____	_____
106) Determine if accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
107) Consider economic performance requirement and recurring item exceptions.	_____	_____	_____
108) Review and update schedules for federal and state carryover items (regular and AMT) such as:			

INDIVIDUAL INCOME TAX RETURN CHECKLIST

1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.1) Net operating loss.	_____	_____	_____
.2) Capital loss.	_____	_____	_____
.3) Investment credit.	_____	_____	_____
.4) Alternative minimum tax credit.	_____	_____	_____
.5) Other credits. (Foreign tax, child care credit, etc.)	_____	_____	_____
.6) Charitable contributions.	_____	_____	_____
.7) Installment sales.	_____	_____	_____
.8) Retirement plan contribution.	_____	_____	_____
.9) Passive activity losses and credits.	_____	_____	_____
.10) Suspended losses/credits due to at risk limitations.	_____	_____	_____
.11) S corporation and partnership basis.	_____	_____	_____
.12) "Publicly traded partnership" losses.	_____	_____	_____
.13) Change of accounting adjustments (§ 481).	_____	_____	_____
.14) Home office deductions (IRS Notice 93-12).	_____	_____	_____
.15) § 179.	_____	_____	_____
.16) Investment interest expense.	_____	_____	_____
.17) Home mortgage points for amortization.	_____	_____	_____
.18) Nontaxable or reinvested dividends and original issue discounts.	_____	_____	_____
.19) Deadline for replacing personal residence sold in a prior year and for involuntary conversions.	_____	_____	_____
.20) Percentage depletion.	_____	_____	_____
.21) Prior year overpayment(s) credited to subsequent year estimate.	_____	_____	_____
109) Inquire whether the taxpayer has made or received any below-market-rate loans. If so, determine imputed interest consequences and existence of properly executed notes.	_____	_____	_____

1996 - FORM 1040

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INDIVIDUAL INCOME TAX RETURN CHECKLIST

1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
207) Compare sources of dividend and interest income with prior year items. Identity of payor and amount should agree with 1099. Include TIN and address of payor of interest received from seller provided financing.	<hr/>	<hr/>	<hr/>
208) If a 1099-OID is received, compute the includible amount.	<hr/>	<hr/>	<hr/>
209) If interest is received, determine if:			
.1) Any portion of the interest received is excludible as accrued interest purchased.	<hr/>	<hr/>	<hr/>
.2) There are penalties for early withdrawals.	<hr/>	<hr/>	<hr/>
210) Review dividends to segregate taxable, non-taxable and capital gain portions. Consider whether stock dividends are included.	<hr/>	<hr/>	<hr/>
211) If the taxpayer is divorced or separated:			
.1) Inquire if the taxpayer received alimony or separate maintenance payments.	<hr/>	<hr/>	<hr/>
.2) Determine that child support payments are not reported as income.	<hr/>	<hr/>	<hr/>
.3) Include the recipient's name and social security number for alimony or separate maintenance payments paid.	<hr/>	<hr/>	<hr/>
.4) For post-1986 divorces, review amount received/paid to determine non-taxable/deductible/recapture portion.	<hr/>	<hr/>	<hr/>
212) Determine that installment sales are reported properly:			
.1) Consider related party rules.	<hr/>	<hr/>	<hr/>
.2) Determine that the full amount of depreciation recapture is reported in the year of sale whether or not payment was received in that year.	<hr/>	<hr/>	<hr/>
.3) Review for adequate stated interest on debt instruments received in connection with the sale. Determine whether original issue discount or unstated interest rules require restatement of note interest and principal.	<hr/>	<hr/>	<hr/>
.4) Determine if the taxpayer is a "dealer" with respect to the related property. If so:			
.a) Determine that the installment method is <u>not</u> used to report post-1987 sales of dealer property. (Exceptions: farm property, certain timeshare rights, and residential lots if proper election is made.)	<hr/>	<hr/>	<hr/>

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.b) Determine that the interest owed as a result of an election .a) above is properly reported.	_____	_____	_____
.5) Consider special rules for installment reporting by certain non-dealers of real (post-1986 sales) or personal property (post-1988 sales) where the sales price exceeds \$150,000. (§ 453A) (Does not apply to certain farm property and certain individual use property.)	_____	_____	_____
.a) Compute the interest charge imposed on outstanding tax deferred installment obligations if the face amount of these obligations that arose during, and are still outstanding at the close of, the tax year exceeds \$5 million.	_____	_____	_____
.b) Determine that the proper amount is treated as a collection on any pledged installment obligation.	_____	_____	_____
.6) Consider election out of installment method.	_____	_____	_____
.7) Determine if an event has occurred requiring accelerated recognition of the remaining unreported gain (e.g., resale rule for related parties, cancellation of the installment obligation, disposition of the installment obligation).	_____	_____	_____
213) If a residence or other property was sold, exchanged, or involuntarily converted during the year:			
.1) Consider non-recognition of gain or loss and related elections. (See RRA '93 and Rev. Rul. 95-22 regarding disaster losses and the SBJPA 1996 for post-1994 Presidentially-declared disasters).	_____	_____	_____
.2) Consider that the replacement period for property involuntarily converted is determined by the type of property.	_____	_____	_____
.3) Obtain closing statements, loan disbursement statements, capital improvements or other basis adjustments and most recent Form 2119. Determine the amount of any property tax reimbursement.	_____	_____	_____
.4) Consider recapture of depreciation and/or tax credits (home office and related equipment).	_____	_____	_____
.5) Consider rules for like-kind and related party exchanges. (Form 8824)	_____	_____	_____
.6) Consider one-time \$125,000 exclusion.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
214) Consider ordinary income treatment for gain on sale of market discount bonds:			
.1) Taxable bonds issued after July 18, 1984, or issued before July 19, 1984 and purchased after April 30, 1993.	_____	_____	_____
.2) Tax exempt bonds acquired after April 30, 1993.	_____	_____	_____
215) Review application of the wash sale rules.	_____	_____	_____
216) Determine that sales of securities settled after year end, with a trade date within current year, are reported this year. Note special rules for short sales in § 1233.	_____	_____	_____
217) Determine limitations if there has been a sale of a mutual fund at a loss within six months of acquisition, and:			
.1) A capital gain dividend was received, or	_____	_____	_____
.2) Exempt-interest dividend was received.	_____	_____	_____
218) Inquire if the taxpayer has any worthless securities.	_____	_____	_____
219) If there are § 1231 gains, determine the amount subject to ordinary income treatment as a result of five-year recapture rule for prior net § 1231 losses.	_____	_____	_____
220) Determine holding period and federal, state and AMT tax bases of property sold.	_____	_____	_____
221) If the taxpayer recovered amounts previously deducted (such as state income taxes and medical expenses), consider tax benefit rules.	_____	_____	_____
222) Consider all options for lump-sum distributions from qualified retirement plans:			
.1) The one-time election for five-year averaging available only after age 59½.	_____	_____	_____
.2) Election to treat capital gains portion as ordinary income.	_____	_____	_____
.3) Taxpayers reaching 50 before 1986 have a one-time election.	_____	_____	_____
223) For IRA, pension or annuity distributions, consider:			
.1) Nontaxable portions (federal and state).	_____	_____	_____
.2) Applicability of early withdrawal penalty. Note exceptions (§ 72(t)).	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) A qualified rollover within 60 days of distribution.	_____	_____	_____
.4) Whether taxpayer has met 70½ minimum withdrawal requirements.	_____	_____	_____
.5) The SBJPA's simplified method of determining basis for annuities with a starting date of November 18, 1996.	_____	_____	_____
224) Consider the \$5,000 death benefit exclusion for amounts paid by or on behalf of employer (SBJPA 1996).	_____	_____	_____
225) Consider limitations of § 704(d), § 465 at risk, and/or § 1366(d) basis rules.	_____	_____	_____
226) For prior year losses limited by at risk rules, determine if additional basis has been generated in the current year to deduct all or a portion of the losses.	_____	_____	_____
227) Consider at risk limitation (Form 6198) and hobby loss rules on sole proprietor Schedule C.	_____	_____	_____
228) If the taxpayer is an S corporation shareholder facing a potential basis limitation, consider election to reduce basis for items of loss or deduction before reducing basis for noncapital, nondeductible expenses and certain oil and gas depletion deductions (Reg. § 1.1367-1(f)).	_____	_____	_____
229) If the taxpayer is an S corporation shareholder who made loans to the corporation, determine gain on repayment.	_____	_____	_____
230) Compare sources of K-1s with prior year. Review current K-1s to determine that all items have been properly reported.	_____	_____	_____
231) If a distribution or technical termination has occurred in a partnership, consider making a § 732(d) election.	_____	_____	_____
232) Determine if there are passive activities (see Passive Activity Checklist). Note that the activities must be grouped in accordance with the proposed regulation.			
.1) Consider the \$25,000 special allowance for rental real estate.	_____	_____	_____
.2) Consider the exception for taxpayers who materially participate in real property trades or businesses (§ 469(c)(7)).	_____	_____	_____
.3) Determine if any passthrough entity in which the taxpayer has an interest has separately reported activities.	_____	_____	_____
.4) Review whether a disposition or recharacterization of a prior passive activity has occurred.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Determine whether personal usage of rental rules apply.	_____	_____	_____
233) Designate and include income subject to self-employment tax (Schedule C, partnership and other income). Consider new self-employment regulations relating to members of an LLC. See SBJPA 1996 for exclusion of minister retirement benefits.	_____	_____	_____
234) Determine taxability of scholarships, fellowships, social security benefits or disability income received (see RRA '93).	_____	_____	_____
235) Determine if there is discharge of indebtedness income (see RRA '93).	_____	_____	_____
.1) Consider exclusion and elections under § 108.	_____	_____	_____
.2) Consider Form 982.	_____	_____	_____
236) Determine other sources of income, e.g., gambling winnings, lotteries, jury duty.	_____	_____	_____
237) Consider the reporting of income and deductions in respect of decedent.	_____	_____	_____
238) Consider appropriate income inclusion amount for leased vehicles and property. (See Vehicle Related Guides).	_____	_____	_____
239) Inquire if the taxpayer engaged in bartering transactions.	_____	_____	_____
240) Consider the mark to market rules for "dealers in securities." Warning: the definition of "dealers in securities" contained in § 475 is not limited to Wall Street brokerage firms. The expansive definition includes many taxpayers involved in lending transactions and various seller financed activities.	_____	_____	_____
.1) Determine that § 475 assets are adjusted to fair market value at the end of the year.	_____	_____	_____
.2) Determine the § 481 adjustment.	_____	_____	_____
.3) Amortize the § 481 adjustment over 5 years (15 years for certain floor specialists and market makers) beginning with the year of change.	_____	_____	_____
.4) Determine if exempt securities were timely identified in taxpayer books and records.	_____	_____	_____
.5) Consider loss limitations for securities not properly identified.	_____	_____	_____
241) Consider exclusion for subsidized campus housing for certain medical research institutions (SBJPA 1996).	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
242) Consider inclusion requirements for punitive damages received after August 2, 1996 (SBJPA 1996).	_____	_____	_____
300) DEDUCTIONS			
301) For all businesses of the taxpayer reported on Form 1040:			
.1) Review the taxpayer's vacation pay policy to determine if a deduction is allowable on the accrual basis (vested at year-end and paid within 2½ months after year-end).	_____	_____	_____
.2) Consider the applicability of uniform capitalization rule to resellers with annual gross receipts in excess of \$10 million and all producers of property. (Note final regulations related to general rules (§ 1.263A-1), producers (§ 1.263A-2) and resellers (§ 1.263A-3)).			
.a) Determine that all costs are included.	_____	_____	_____
.b) Consider interest capitalization rules for debt incurred to produce property.	_____	_____	_____
.c) If the beginning inventory is revalued:			
(i) Ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting. (§ 481)	_____	_____	_____
(ii) Ascertain § 481 forward spread period (not to exceed four years).	_____	_____	_____
(iii) Determine that Form 3115 is attached to the tax return for the year of change.	_____	_____	_____
(iv) Consider electing "simplified" methods.	_____	_____	_____
.d) For farmers and ranchers consider:			
(i) One-time election out of uniform capitalization rules if election was not required in a prior year.	_____	_____	_____
(ii) The exemption for expenses incurred in the production of animals.	_____	_____	_____
.e) Review the definition of "produce." (Reg. § 1.263A-2(a)(1)(i)).	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR</u> <u>EXPLANATION</u>
.3) Long-Term Contracts			
.a) Determine if the taxpayer is subject to the long-term contract reporting rules requiring that the percentage of completion method, instead of the completed contract method, be used to determine taxable income. Note exceptions for certain qualifying construction contracts and most contracts for the manufacture of property.	_____	_____	_____
.b) In determining whether contracts of the taxpayer are subject to the percentage of completion method of reporting, consider:	_____	_____	_____
(i) Related party rules.	_____	_____	_____
(ii) Contract aggregation rules.	_____	_____	_____
.c) Determine that the percentage of completion is calculated based on costs incurred, not work performed.	_____	_____	_____
.d) Determine that all required costs have been allocated to the contracts. Note the expanded requirement to capitalize costs similar to the uniform capitalization rules.	_____	_____	_____
.e) Consider electing the simplified method of allocating costs, whereby fewer costs are taken into account, to determine the degree of contract completion.	_____	_____	_____
.f) Consider electing the modified percentage of completion method, whereby the recognition of income and accounting for costs is deferred until the first tax year in which at least 10% of the estimated total contract costs have been incurred as of the end of that year. Note that this election is not available if the simplified method above has been elected.	_____	_____	_____
.g) Upon completion of a contract, determine that the "look-back rule" has been applied to compare actual contract price and costs to previously used estimates and pay/claim interest on the related changes in prior years taxes on Form 8697. Note that certain small contracts are not subject to the "look-back rule."	_____	_____	_____
302) For home office deduction consider new rules under the SBJPA 1996 for storage of inventory and product samples.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
303) If employer included 100% of value of use of employer provided auto, etc., on W-2 inquire:			
.1) If client has evidence to support deduction for a portion of the included amount as business use.	_____	_____	_____
.2) If such evidence is written.	_____	_____	_____
304) Determine the applicability of a moving expense deduction and whether any associated reimbursement is properly reported (see RRA '93).	_____	_____	_____
305) Determine if the taxpayer is entitled to a deduction for contributions to an IRA or, in the capacity of a self-employed individual, for contributions to a Keogh or a simplified employee pension (SEP) and review possible alternatives with taxpayer before the return due date:			
.1) Determine that IRA contributions have been or will be made no later than April 15, 1997. Keogh/SEP plan contributions must be made by the due date of the return, including extensions. Note the earnings limit (see RRA '93).	_____	_____	_____
.2) Alimony income qualifies for IRA contributions.	_____	_____	_____
.3) Prepare Form 8606 for non-deductible IRA contributions.	_____	_____	_____
.4) Consider informing client about a possible need to file Form 5500 series.	_____	_____	_____
.5) Determine that Keogh plan was adopted prior to 1997.	_____	_____	_____
306) For medical deductions consider:			
.1) Medical travel deductions.	_____	_____	_____
.2) Deduction of Medicare premiums.	_____	_____	_____
.3) Self-employed health insurance premiums including more than 2% S corporation shareholders.	_____	_____	_____
307) Allocation of interest expense:			
.1) Determine that the proper allocations have been made by type (trade or business, investment, passive activity, tax-exempt expenditures, etc.).	_____	_____	_____
.2) For interest on debts allocated to more than one expenditure, determine that the proper ordering of loan repayments has been considered.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Determine that the interest has been properly reallocated when either:			
.a) The subject of the first expenditure has been disposed of and the proceeds are used for another expenditure, or	_____	_____	_____
.b) The character of the expenditure has changed.	_____	_____	_____
308) Investment interest:			
.1) Limit the taxpayer's deduction for investment interest to net investment income.	_____	_____	_____
.2) In computing net investment income, deduct investment expenses after application of the 2% AGI floor.	_____	_____	_____
.3) Consider the election to treat net long-term capital gain as investment income subject to ordinary income tax rates (see RRA '93).	_____	_____	_____
309) Determine that personal interest was not deducted.	_____	_____	_____
310) Qualified residence interest:			
.1) Determine that qualified residence interest is limited to the principal residence of the taxpayer and one other qualified residence of the taxpayer; that all such debts are secured by such residences and "perfected" and the deduction is limited to:			
.a) Interest paid on acquisition indebtedness.	_____	_____	_____
.b) Home equity indebtedness.	_____	_____	_____
.2) Consider election out of qualified residence interest for appropriate debt (interest on excess debt may be classified as investment interest, etc.)	_____	_____	_____
.3) Provide complete information for interest deductions on seller provided financing.	_____	_____	_____
.4) Determine if points were paid at closing for acquisition indebtedness or amortizable points paid on refinancing.	_____	_____	_____
.5) Determine if points were paid at closing for acquisition indebtedness by seller (see Rev. Proc. 94-27).	_____	_____	_____
.6) Consider section 265 limitations when taxpayer has tax-exempt income.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
311) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
312) Other interest issues:			
.1) Treat amortizable bond premium (for bonds acquired after 1987) as an offset to interest income.	_____	_____	_____
.2) Consider the capitalization of interest rules when the taxpayer is constructing or producing certain real or tangible personal property.	_____	_____	_____
.3) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on owners and key employees to the extent that the total of such loans exceeds \$50,000. Note phaseout rules under HIPAA 1996.	_____	_____	_____
.4) Determine that interest is not claimed for a loan made or renewed after 1986 from a qualified retirement plan to a key employee or if such loan is guaranteed by § 401(k) deferrals.	_____	_____	_____
.5) Consider treatment of interest on debt used to acquire an interest in a pass-through entity, and the self-charged interest provisions.	_____	_____	_____
.6) Consider treatment of interest on debt financed distributions from pass-through entities (see RRA '93).	_____	_____	_____
313) For charitable contributions consider:			
.1) If all contributions are to qualified charitable organizations.	_____	_____	_____
.2) Charitable contribution limitations.	_____	_____	_____
.3) Reduction of contribution deduction due to value of college athletic tickets or token benefits.	_____	_____	_____
.4) Charitable travel deduction.	_____	_____	_____
.5) Non-cash contributions in excess of \$500 require Form 8283 and possibly an appraisal.	_____	_____	_____
.6) If adequate contemporaneous documentation was obtained for contributions of \$250 or more (and quid pro quo contributions in excess of \$75). (See RRA '93.)	_____	_____	_____
.7) The fair market value of qualified appreciated stock to private foundation after June 30, 1996. (SBJPA 1996)	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
314) Review all personal casualty gains and losses for proper reporting. Consider option to deduct current year qualifying losses on preceding year tax return by filing an amended return.	_____	_____	_____
315) Consider vacation home deduction limitations.	_____	_____	_____
316) Inquire if the taxpayer can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, gifts, travel, conventions, and listed property. Note new \$75 substantiation requirement for travel expenses (see Notice 95-50). Note \$25 limit on gifts. Consider optional per diem method. Note limitations on deductibility of certain non-employee travel expenses.	_____	_____	_____
317) Limit meals and entertainment deduction to the allowable percentage. Consider exceptions.	_____	_____	_____
318) Consider deduction of unused loss carryovers and excess deductions on termination from estates and trusts.	_____	_____	_____
319) Inquire whether taxpayer has bad debts or § 1244 stock transactions to be reflected in the current year return.	_____	_____	_____
320) Review partially worthless debt for write-off under Temp. Reg. § 1.166-3T.	_____	_____	_____
321) Consider limitations on deducting expenses related to federally tax-exempt income. Note that these expenses may be deductible at the state level if the related income is state taxable.	_____	_____	_____
322) Consider that otherwise allowable deductions, other than medical costs, casualty and theft losses, and investment interest, are reduced by 3% of the taxpayer's adjusted gross income in excess of the threshold amount.	_____	_____	_____
323) If this is the first year that the taxpayer has incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception (Rev. Proc. 92-28).	_____	_____	_____
324) Determine the deductibility of club dues (§ 274(a)(3)).	_____	_____	_____
325) Inquire if trade association dues include nondeductible lobbying expenses.	_____	_____	_____
326) Determine that certain lobbying expenses are not deducted. Note exceptions.	_____	_____	_____
400) DEPRECIATION			
401) For assets placed in service during the current year:			
1) Consider § 179 election to expense qualifying assets.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property placed in service after June 30, 1993.	_____	_____	_____
.3) Determine the depreciable basis of each asset.	_____	_____	_____
.4) Determine the property class, recovery period and depreciation method for each asset. Note changes in recovery periods for certain non-residential real property acquisitions after May 13, 1993. (Rev. Procs. 87-56 and 88-22 and RRA '93).	_____	_____	_____
.5) Determine the applicable convention (half-year, mid-quarter or mid-month).	_____	_____	_____
.6) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period (RRA '93).	_____	_____	_____
.7) Consider 36-month depreciation rules for software.	_____	_____	_____
.8) Consider reduced depreciable lives for real estate improvements and special use structure.	_____	_____	_____
.9) Consider electing the Alternative Depreciation System (straight line over an ADS recovery period) for qualifying General Depreciation System property.	_____	_____	_____
.10) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.	_____	_____	_____
.11) If property is leased to a tax-exempt entity, consider the possible need to use the ADS.	_____	_____	_____
.12) Consider depreciation limitations for IDB financed property, and certified historic structures for which a tax credit was taken.	_____	_____	_____
.13) If a short year, determine that Rev. Proc. 89-15 is followed.	_____	_____	_____
.14) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2 (d)(3).	_____	_____	_____
.15) Determine if interest is payable under look-back method where income forecast method is used (SBJPA 1996).	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods (see RRA '93).	_____	_____	_____
403) Consider the provisions of Rev. Proc. 96-31 to rectify prior year claims of less than allowable depreciation or amortization.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST

1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
404) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture.	_____	_____	_____
405) For listed property (e.g., cellular phones, autos, computers, airplanes, boats):			
.1) For autos, consider the maximum allowable under the luxury auto rules.	_____	_____	_____
.2) For autos, determine limitation if the business usage is 50% or less.	_____	_____	_____
.3) Determine limitations for all other mixed-use property, if the business usage is 50% or less.	_____	_____	_____
.4) Inquire if the individual has kept the required records indicating the business and personal use of property. Note that certain travel between home and temporary work locations is considered business.	_____	_____	_____
.5) Determine recapture if the business usage is 50% or less.	_____	_____	_____
406) Determine if leased property/equipment should be capitalized.	_____	_____	_____
407) Form 4562 if required:			
.1) Reconcile depreciation expense to supporting schedules.	_____	_____	_____
.2) Complete all questions regarding personal use of listed property. Also applies to standard mileage rate autos unless Form 2106 or Schedule C Part IV is used.	_____	_____	_____
.3) If costs were incurred during the current year, determine that all amortizable items are separately stated and the proper Code section cited.	_____	_____	_____
408) Report depreciation recapture and related investment credit recapture if taxpayer converted depreciable business assets to non-business personal assets.	_____	_____	_____
409) Consider anti-churning rules.	_____	_____	_____
410) Consider state depreciation, if different.	_____	_____	_____
411) Consider federal and state AMT depreciation.	_____	_____	_____
500) TAX COMPUTATIONS AND CREDITS			
501) Compute regular tax.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST

1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.1) Consider phase-out of personal exemptions.	_____	_____	_____
.2) Consider capital gains tax computation.	_____	_____	_____
502) Alternative minimum tax must be computed by making adjustments such as:			
.1) Personal exemptions allowed in computing regular tax liability.	_____	_____	_____
.2) Depreciation on property placed in service after 1986 (or July 31, 1986, if election was made) must be recomputed using the alternative depreciation system (Rev. Proc. 87-57).	_____	_____	_____
.3) Mining, exploration research and experimental costs must be capitalized and amortized over a ten-year period.	_____	_____	_____
.4) Income from long-term contracts entered into after February 28, 1986 must be computed using the percentage-of-completion method of accounting. Note exception for "home construction contracts."	_____	_____	_____
.5) Income from post-February 28, 1986, dispositions of real or personal property held for sale in the ordinary course of business shall be determined without regard to the installment method, except in cases where an election is made to pay interest on the tax deferred by the qualified installment sale.	_____	_____	_____
.6) Use AMT net operating loss (NOL) deduction in place of the regular NOL deduction. Post-1986 AMT NOL is available only to the extent of 90% of pre-NOL AMTI.	_____	_____	_____
.7) Compute gains/losses on sales and exchanges using the AMT adjusted basis.	_____	_____	_____
.8) The spread between the fair market value at the time of exercise and the purchase price of incentive stock options.	_____	_____	_____
.9) Adjust itemized deductions for the following AMT rules:			
.a) No deduction is allowed for miscellaneous itemized deductions or most taxes.	_____	_____	_____
.b) Medical expenses are subject to a 10% floor.	_____	_____	_____
.c) Qualified housing interest expense is restricted.	_____	_____	_____
.d) State tax refunds are excluded from AMTI.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR</u> <u>EXPLANATION</u>
.e) Overall itemized deduction limitation (3% rule) amount is added back.	_____	_____	_____
.10) The following preference items must be added:			
.a) Excess intangible drilling costs. (Consider election to amortize over 60 months and the § 57(a)(2)(E) exclusion.)	_____	_____	_____
.b) Tax-exempt interest on private activity bonds issued after August 7, 1986.	_____	_____	_____
.c) Accelerated depreciation on real and leased personal property placed in service before January 1, 1987.	_____	_____	_____
.11) Consider special rules denying certain losses for AMT purposes:			
.a) Net passive activity losses as adjusted for tax preferences (Form 8582).	_____	_____	_____
.b) Certain farm losses.	_____	_____	_____
.c) Insolvent taxpayers.	_____	_____	_____
.12) Consider AMT foreign tax credit.	_____	_____	_____
503) Consider tax credits such as:			
.1) Child and dependent care credit. (PRWORA 1996.)	_____	_____	_____
.2) Credit for the elderly or disabled.	_____	_____	_____
.3) Credit for interest paid on Mortgage Credit Certificates.	_____	_____	_____
.4) Foreign tax credit.	_____	_____	_____
.5) Various fuel and energy related credits.	_____	_____	_____
.6) Earned income credit (see RRA '93 and HIPAA 1996).	_____	_____	_____
.7) General business credit.	_____	_____	_____
.8) Credit for increasing research activities. (See SBJPA 1996 for extension through May 31, 1997.)	_____	_____	_____
.9) Low income housing credit.	_____	_____	_____
.10) Disabled access credit.	_____	_____	_____
.11) Rehabilitation credit.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.12) Minimum tax credit.	_____	_____	_____
.13) Credit for "excess employer social security tax" on cash tips (see RRA '93).	_____	_____	_____
.14) Empowerment zone employment credit (see RRA '93).	_____	_____	_____
.15) Credit for purchase of diesel-powered vehicles (see RRA '93).	_____	_____	_____
.16) Credit for qualified clinical testing expenses (Orphan Drug Credit) paid or incurred after June 30, 1996 and associated carrybacks and carryovers. (SBJPA 1996)	_____	_____	_____
.17) Work opportunity credit for eligible employees who begin work after September 30, 1996. (SBJPA 1996)	_____	_____	_____
504) Determine if the taxpayer is subject to:			
.1) Self-employment tax. (See SBJPA 1996 for new rule on minister retirement benefits.)	_____	_____	_____
.2) Investment credit recapture.	_____	_____	_____
.3) Social security tax on tip income.	_____	_____	_____
.4) Form 5329 - tax on:			
.a) Premature distributions.	_____	_____	_____
.b) Overfunding of IRAs and other qualified plans.	_____	_____	_____
.c) Excess accumulations/failure to withdraw.	_____	_____	_____
.d) Excess distributions.	_____	_____	_____
.5) Tax on trust accumulation distributions.	_____	_____	_____
505) Determine if the taxpayer has paid excess FICA.	_____	_____	_____
506) Determine if there was withholding on interest, dividends, sale transactions, retirement plan distributions or other sources of income.	_____	_____	_____
507) Confirm amounts and dates of any federal, state and local estimated tax deposits/payments (including withholding) for the year, prior year overpayments, and extension payments.	_____	_____	_____
508) If withholding and estimated tax payments are less than 90% of the tax liability, consider filing Form 2210.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
509) Consider changes needed in withholding or estimated tax for the forthcoming year and set up estimated tax payments. Determine if prior year 100% or 110% rule applies.	_____	_____	_____
510) Consider filing Form 9465, Request for Installment Payment Plan.	_____	_____	_____
600) OTHER REQUIREMENTS			
601) Compare taxable income to projections for reasonableness.	_____	_____	_____
602) If the taxpayer sold partnership interests during year, determine:			
.1) That appropriate information was given to the partnership to enable it to prepare Form 8308.	_____	_____	_____
.2) That the required statement under Reg. § 1.751-1(a)(3) is attached if the partnership had § 751(a) assets.	_____	_____	_____
603) Determine if Form 8271 is required for tax shelters.	_____	_____	_____
604) Consider capitalizing carrying charges (interest, taxes, etc.) on nonproductive property.	_____	_____	_____
605) Determine if expenditures were incurred that are eligible for the disabled access credit (see Form 8826). If taxpayer does not qualify for the credit or has expenditures in excess of credit limit, consider making § 190 election to expense cost.	_____	_____	_____
606) Consider the election to forego the net operating loss carryback:			
.1) If electing to forego - attach required statement.	_____	_____	_____
.2) If carrying back - prepare Form 1045 or Form 1040X.	_____	_____	_____
.3) Consider state differences.	_____	_____	_____
607) If the taxpayer is divorced or separated:			
.1) Obtain a copy of the applicable documents.	_____	_____	_____
.2) Determine the appropriate basis of property transferred.	_____	_____	_____
.3) Attach Form 8332 or a copy of the authorizing documentation for dependency exemption on non-custodial parent's tax return.	_____	_____	_____
608) If under age 14 dependent has unearned income in excess of \$500:			
.1) Consider need to disclose taxable income information on dependent's returns.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) If parent elects to report child's interest and dividends, prepare Form 8814.	_____	_____	_____
609) If final return of deceased taxpayer, determine if the proper allocation has been made for all items of income, deduction and credits between this return and the estate income tax return.	_____	_____	_____
610) If the taxpayer has made an "applicable asset acquisition" transfer of assets (that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met. (Form 8594)	_____	_____	_____
611) Consider § 6662 accuracy-related penalty. If this penalty could apply:			
.1) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275 or 8275R).	_____	_____	_____
.2) Consider advising the taxpayer, in writing, of the penalty.	_____	_____	_____
612) Prepare state and local tax returns. Review each state's modification requirements. Note that some states' filing requirements are based on federal AGI. Taxpayer may be required to file even though taxpayer has negative AGI in that state.	_____	_____	_____
613) If filing multistate returns, determine if a credit may be claimed on resident state tax return for taxes paid to other states.	_____	_____	_____
614) Information returns:			
.1) Inquire whether the taxpayer has filed all required information returns (1098 and 1099 series) and whether the value of personal use portion of employer property, expense reimbursements under "unaccountable plans" and § 401(k) deferred compensation information has been included in employees' W-2s.	_____	_____	_____
.2) Inquire if the taxpayer has complied with magnetic media filing requirements for Forms 1099 and W-2.	_____	_____	_____
.3) Inquire if additional items subject to employer FICA such as § 401(k) deferrals, employer-provided excess group-term life insurance, all cash tips, etc., have been properly reported.	_____	_____	_____
615) Inquire if employment taxes were timely deposited.	_____	_____	_____
616) Consider informing client of requirement to file Form 8300 for certain payments received exceeding \$10,000.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
1996 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
617) Determine that 5500 series forms have been filed for cafeteria plans and for welfare benefit plans (e.g., medical benefit plans, life insurance, disability or death benefit plans) that have more than 100 participants.	_____	_____	_____
618) Determine if Form TD F 90-22.1 is needed to report foreign financial accounts.	_____	_____	_____
619) Inquire if gift tax returns are required.	_____	_____	_____
620) Include Form 1040V.	_____	_____	_____
621) Include/attach extension request(s).	_____	_____	_____
622) Prepare filing instructions and transmittal letter.	_____	_____	_____
623) Note tax planning suggestions.	_____	_____	_____

COMMENTS OR EXPLANATIONS

MINI-CHECKLIST

ESTATE AND TRUST INCOME TAX RETURN

1996 - FORM 1041

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
GENERAL INFORMATION					
1. Review and update taxpayer information including beneficiaries' names, addresses, social security numbers and birth dates.	<input type="checkbox"/>	<input type="checkbox"/>	3. Sale or dispositions of property:		
			Check for related party sales & consequences.	<input type="checkbox"/>	<input type="checkbox"/>
2. Complete Form 1040 Schedule H.	<input type="checkbox"/>	<input type="checkbox"/>	Like-kind exchanges.	<input type="checkbox"/>	<input type="checkbox"/>
3. Review prior year returns, workpapers, correspondence and audit results.	<input type="checkbox"/>	<input type="checkbox"/>	Utilize suspended losses.	<input type="checkbox"/>	<input type="checkbox"/>
4. Consider signed engagement letter.	<input type="checkbox"/>	<input type="checkbox"/>	Installment sales:		
5. Check for carryovers and update schedules including effect of prior tax audits.	<input type="checkbox"/>	<input type="checkbox"/>	Depreciation recapture reported in year of sale	<input type="checkbox"/>	<input type="checkbox"/>
			Adequate interest rate	<input type="checkbox"/>	<input type="checkbox"/>
6. Verify that a copy of will or trust agreement, Form 706 or Form 709 is in file.	<input type="checkbox"/>	<input type="checkbox"/>	Consider electing out of installment sale treatment	<input type="checkbox"/>	<input type="checkbox"/>
7. Verify classification of trust (grantor, simple, complex, etc.).	<input type="checkbox"/>	<input type="checkbox"/>	Report proper amount from pledging receivables	<input type="checkbox"/>	<input type="checkbox"/>
8. Determine situs of trust.	<input type="checkbox"/>	<input type="checkbox"/>	Involuntary conversions. See SBJPA 1996.	<input type="checkbox"/>	<input type="checkbox"/>
9. Determine residence of trustees.	<input type="checkbox"/>	<input type="checkbox"/>	4. Determine holding period and basis of sold assets.	<input type="checkbox"/>	<input type="checkbox"/>
10. Determine state filing requirements.	<input type="checkbox"/>	<input type="checkbox"/>	5. Review passive loss limitations and carryovers.	<input type="checkbox"/>	<input type="checkbox"/>
11. Determine basis for all assets received.	<input type="checkbox"/>	<input type="checkbox"/>	6. Determine separate passive activity reporting.	<input type="checkbox"/>	<input type="checkbox"/>
12. Inquire if foreign financial accounts exist.	<input type="checkbox"/>	<input type="checkbox"/>	7. Review K-1s for proper reporting of data.	<input type="checkbox"/>	<input type="checkbox"/>
13. Determine basis adjustment due to grantor's death.	<input type="checkbox"/>	<input type="checkbox"/>	8. Consider election for gain/loss on distributed property (§ 643(e)).	<input type="checkbox"/>	<input type="checkbox"/>
14. If first return, allocate income and deductions among trust, estate and/or 1040.	<input type="checkbox"/>	<input type="checkbox"/>	9. Compute trust accounting income.	<input type="checkbox"/>	<input type="checkbox"/>
15. Determine changes in interests of beneficiaries during year.	<input type="checkbox"/>	<input type="checkbox"/>	10. Determine if capital gains are allocated to DNI.	<input type="checkbox"/>	<input type="checkbox"/>
16. Review pro forma for accuracy.	<input type="checkbox"/>	<input type="checkbox"/>	11. Determine if property sold was contributed to trust within 2 years of sale. (§ 644).	<input type="checkbox"/>	<input type="checkbox"/>
17. Review accounting methods.	<input type="checkbox"/>	<input type="checkbox"/>	12. Determine if discharge of indebtedness income.	<input type="checkbox"/>	<input type="checkbox"/>
18. Determine if Form 56 is necessary.	<input type="checkbox"/>	<input type="checkbox"/>	13. Determine limitation on losses from related party transactions.	<input type="checkbox"/>	<input type="checkbox"/>
19. Review for trust termination date.	<input type="checkbox"/>	<input type="checkbox"/>	DEDUCTIONS		
20. Note GST inclusion ratio and determine that adequate support is in the file to verify inclusion ratio.	<input type="checkbox"/>	<input type="checkbox"/>	1. Determine proper allocations and limitations on interest expense relating to the following expenditures: investments, trade/business, passive, tax-exempt, etc.	<input type="checkbox"/>	<input type="checkbox"/>
21. Consider filing Form 8821 or 2848	<input type="checkbox"/>	<input type="checkbox"/>	2. If tax exempt income, allocate deductions.	<input type="checkbox"/>	<input type="checkbox"/>
INCOME			3. Consider depreciation requirements.	<input type="checkbox"/>	<input type="checkbox"/>
1. Compare sources of income with prior year.	<input type="checkbox"/>	<input type="checkbox"/>	4. Determine that amortizable items are written off over the correct period.	<input type="checkbox"/>	<input type="checkbox"/>
2. Properly report all adjustments from changes in period or method.	<input type="checkbox"/>	<input type="checkbox"/>	5. Inquire about other possible deductions (charitable, taxes, business, worthless securities, casualty losses).	<input type="checkbox"/>	<input type="checkbox"/>
			6. T&E expenses - inquire if support is adequate.	<input type="checkbox"/>	<input type="checkbox"/>

MINI-CHECKLIST
ESTATE AND TRUST INCOME TAX RETURN
1996 - FORM 1041

Done N/A

- | | | |
|--|--------------------------|--------------------------|
| 7. Limit deduction for meals and entertainment to allowable percentage. | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Compute distribution deduction. | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. Determine if there is a 65-day distribution. | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. Determine if a deduction for estate tax attributable to income in respect of a decedent is available. | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. If current distributions are in excess of trust accounting income, determine if throwback provisions are applicable and complete Schedule J. | <input type="checkbox"/> | <input type="checkbox"/> |

TAX COMPUTATION AND CREDITS

- | | | |
|---|--------------------------|--------------------------|
| 1. Compute tax, including AMT. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Compute AMT-DNI. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Compute credit recapture. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Confirm for prior year overpayments, estimates and extension payments. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Prepare estimated tax vouchers. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Determine whether estimated tax should be 100% or 110% of prior year. | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Compute underpayment penalties. | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Consider tax credits. See SBJPA 1996. | <input type="checkbox"/> | <input type="checkbox"/> |

OTHER REQUIREMENTS

- | | | |
|---|--------------------------|--------------------------|
| 1. Prepare Schedule(s) K-1. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. If trust tax payments are allocated to beneficiaries, file Form 1041-T within 65 days of year end. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Inquire if information returns have been filed. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Consider election to forego NOL carryback. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Prepare state income and intangibles returns. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Consider credits for multistate returns. | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Determine excess deductions or losses available to beneficiaries in final year. | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Determine if a generation skipping distribution was made, prepare Form 706 GS(T) or GS(D) and (D-1). | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. Consider risk of accuracy-related penalty (§ 6662). | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. Attach extension request(s). | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. Note tax planning suggestions. | <input type="checkbox"/> | <input type="checkbox"/> |

SHORT VERSION
ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review and update trust's name, address, beneficiaries, social security numbers, etc., and IRS and other tax processing centers.	_____	_____	_____
102) Determine if taxpayer had household employees. Complete Form 1040 Schedule H.	_____	_____	_____
103) Review permanent file, prior returns, workpapers, etc.	_____	_____	_____
104) Consider signed engagement letter.	_____	_____	_____
105) Obtain information concerning IRS, state tax audits, and/or correspondence.	_____	_____	_____
106) Check for carryover items and update carryforward schedules including effect of prior tax audits.	_____	_____	_____
107) Verify that copies of will or trust and Form 706, or 709, if applicable and the date created for GST purposes are in the file.	_____	_____	_____
108) Determine proper classification of trust (grantor, simple, complex, unitrust, annuity).	_____	_____	_____
109) Determine proper basis of property passing from a decedent.	_____	_____	_____
110) Determine situs of trust.	_____	_____	_____
111) Determine residency of trustee(s).	_____	_____	_____
112) Review computer-generated pro forma for accuracy.	_____	_____	_____
113) Determine state filing requirements.	_____	_____	_____
114) Determine if accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
115) Determine if there have been any changes in income interests or rights over corpus of beneficiaries during the year.	_____	_____	_____
116) Determine if gift tax returns are required by grantor.	_____	_____	_____

SHORT VERSION
ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
117) If first return, determine proper allocation of income and deductions between trust, estate, and/or 1040.	_____	_____	_____
118) Review trust for termination date.	_____	_____	_____
119) If a trust, determine accounting income.	_____	_____	_____
120) Consider filing Form 56 (not required).	_____	_____	_____
121) Determine that all current adjustments from changes in accounting method and period are reported.	_____	_____	_____
122) Inquire if foreign financial accounts exist.	_____	_____	_____
123) Note GST exclusion ratio and determine that adequate support is in the file to verify inclusion ratio.	_____	_____	_____
124) Consider filing Form 8821 or 2848.	_____	_____	_____
200) INCOME			
201) Compare sources of income with prior year.	_____	_____	_____
202) Sale or dispositions of property:			
.1) Check for recapture items.	_____	_____	_____
.2) Review interest rates on debt instruments.	_____	_____	_____
.3) Consider installment reporting for sales that qualify.	_____	_____	_____
.4) Report proper amount from pledging installment receivables.	_____	_____	_____
.5) Determine the holding period and federal, state, and AMT tax bases of disposed property.	_____	_____	_____
.6) Determine the effect of dividends (stock and reinvested) and OID on basis of sold assets.	_____	_____	_____
.7) Consider rules for related party and like-kind exchanges (Form 8824).	_____	_____	_____
.8) Utilize suspended losses.	_____	_____	_____
.9) Involuntary conversions. SBJPA 1996.	_____	_____	_____
203) Determine proper reporting of all annuities (SBJPA 1996), qualified retirement plans, IRAs, etc.	_____	_____	_____

SHORT VERSION
ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
204) Determine separate passive activity reporting.	_____	_____	_____
205) Consider regular and AMT passive activity loss limitations, carryovers and elections (see Passive Activity checklist).	_____	_____	_____
206) Review K-1s to determine that all are present and that all items have been properly reported.	_____	_____	_____
207) Inquire about other possible sources of income such as salaries, dividends, interest, rents, taxable fringe benefits, etc.	_____	_____	_____
208) Determine that gain is reported if appreciated property is used to satisfy pecuniary bequest.	_____	_____	_____
209) Consider the election to recognize gain or loss when property is distributed (§ 643(e)).	_____	_____	_____
210) Consider ordinary income treatment from gain on sale of market discount bonds.	_____	_____	_____
211) Consider the mark to market rules for dealers in securities (§ 475).	_____	_____	_____
212) Determine if there is income from discharge of indebtedness. See RRA '93. Consider exclusion and elections under § 108 and Form 982.	_____	_____	_____
300) DEDUCTIONS			
301) Determine the proper allocation of and limitations on deductions for interest and other expenses relating to:			
.1) Investment expenditures.	_____	_____	_____
.2) Qualified residence interest.	_____	_____	_____
.3) Trade or business expenditures.	_____	_____	_____
.4) Passive activity expenditures.	_____	_____	_____
.5) Tax-exempt investments.	_____	_____	_____
.6) Capitalization of interest during construction.	_____	_____	_____
.7) Inventory and cost of goods sold.	_____	_____	_____
.8) Meals and entertainment expenses (allowable percentage).	_____	_____	_____
.9) Club dues.	_____	_____	_____

SHORT VERSION
ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
302) Consider all depreciation requirements and options including:			
.1) Note that § 179 deduction is not allowed.	_____	_____	_____
.2) Requirements relating to listed property.	_____	_____	_____
.3) Determine if leased property should be capitalized.	_____	_____	_____
.4) Determine basis for federal and state purposes.	_____	_____	_____
303) Determine that amortizable items, including goodwill, are written off over the correct periods. (See RRA '93).	_____	_____	_____
304) Inquire about other possible deductions such as charitable contributions, taxes, employee business expense, worthless securities, casualty losses, vacation homes, etc.	_____	_____	_____
305) Determine amount of distribution deduction.	_____	_____	_____
306) Consider 65 day distribution election for complex trusts.	_____	_____	_____
307) Determine the amount of deduction for estate tax attributable to income in respect of decedent, including generation skipping transfer tax.	_____	_____	_____
308) Attach proper election for items deducted on Form 1041 that could have been claimed on Form 706.	_____	_____	_____
309) Determine passive activity reporting for activities distributed to beneficiaries.	_____	_____	_____
310) Determine limitation on losses from related party transactions.	_____	_____	_____
311) Determine if basis limitation rules apply, e.g., §§ 267, 469, 704(d), 1366(d).	_____	_____	_____
400) TAX COMPUTATION AND CREDITS			
401) Compute tax, including alternative minimum tax.	_____	_____	_____
402) Compute all applicable credits, including carryovers. See SBJPA 1996.	_____	_____	_____
403) Claim prior year overpayment applied, estimate payments, and extension payment.	_____	_____	_____
404) Compute credit recapture.	_____	_____	_____
405) Compute tax underpayment penalties.	_____	_____	_____

SHORT VERSION
ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
406) Prepare estimated tax vouchers.	_____	_____	_____
407) If estimate is based on prior year, determine if 100% or 110% rule applies.	_____	_____	_____
408) If multistate filing, claim credit for taxes paid to nonresident states.	_____	_____	_____
500) OTHER REQUIREMENTS			
501) Determine that proper classifications of income have been made on Schedule(s) K-1.	_____	_____	_____
502) Determine if estimated tax payments should be allocated to beneficiaries. File Form 1041-T within 65 days of year end.	_____	_____	_____
503) Prepare Schedule J if trust made an accumulation distribution.	_____	_____	_____
504) Determine if Form 8271 is required for tax shelters, attach to Schedule K-1.	_____	_____	_____
505) Consider capitalization of carrying charges on non-productive property.	_____	_____	_____
506) Consider election to forego net operating loss carryback.	_____	_____	_____
507) Consider risk of accuracy-related penalty (§ 6662).	_____	_____	_____
508) Prepare state and local tax returns.	_____	_____	_____
509) Determine if excess deductions or losses available to beneficiaries in final year.	_____	_____	_____
510) Determine if there has been a generation skipping distribution, and prepare Form 706GS(D), 706GS(D-1) or 706GS(T).	_____	_____	_____
511) Compare taxable income to projections.	_____	_____	_____
512) Attach extension requests.	_____	_____	_____
513) Inquire if information returns (1098 and 1099 series) have been filed.	_____	_____	_____
514) Inquire if employment taxes paid/timely deposits.	_____	_____	_____
515) Note tax planning suggestions.	_____	_____	_____

SHORT VERSION
ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

COMMENTS OR EXPLANATIONS

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review the trust or estate's name, address, fiscal year, type of entity, identification number, date entity was created, and IRS and other processing centers. Note changes.	_____	_____	_____
102) Review permanent file, prior year returns, memos, workpapers, correspondence files.	_____	_____	_____
103) Verify that copies of the trust agreement or will and Form 706 or Form(s) 709, and the date created for GST purposes are in the permanent file. Check for amendments, revisions, litigation, etc., since last review.	_____	_____	_____
104) Determine proper classification of trust (grantor, simple, complex, unitrust, annuity).	_____	_____	_____
105) If grantor trust, consider simplified reporting requirements using 1099s. (Reg. § 1.671-4)	_____	_____	_____
106) Consider signed engagement letter.	_____	_____	_____
107) If the trust or estate has been examined by the IRS or state:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine that the agent's adjustments have been entered in the trust's records and appropriate carryover workpapers.	_____	_____	_____
.3) If the agent's adjustments affect federal or state income tax returns of years other than those audited, or the corresponding federal or state returns for the same year, consider filing amended returns.	_____	_____	_____
108) Document the various provisions which determine the tax treatment of income, corpus, and distributions.	_____	_____	_____
109) Determine that the basis used for property passing from a decedent is based on fair market value at date of death or other applicable estate tax value.	_____	_____	_____
110) Review computer-generated pro forma for accuracy.	_____	_____	_____
111) Review and update schedules for federal and state carryover items (regular and AMT) such as:			

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.1) Update the trust or estate carryforward data schedule for any nontaxable dividends, or reinvested dividends or original issue discount (OID).	_____	_____	_____
.2) Net operating loss.	_____	_____	_____
.3) Capital loss.	_____	_____	_____
.4) Investment credit.	_____	_____	_____
.5) Minimum tax credit.	_____	_____	_____
.6) Other credits.	_____	_____	_____
.7) Installment sales.	_____	_____	_____
.8) Change of accounting adjustments (§ 481).	_____	_____	_____
.9) Passive activity losses/credits.	_____	_____	_____
.10) Suspended losses/credits due to at-risk limitations.	_____	_____	_____
.11) Partnership or S basis.	_____	_____	_____
.12) "Publicly traded partnership" losses.	_____	_____	_____
.13) Investment interest.	_____	_____	_____
.14) Prior year overpayment(s) credited to subsequent year.	_____	_____	_____
112) Inquire if the trust or estate has made or received any below-market loans. If so, determine imputed interest consequences and existence of properly executed notes.	_____	_____	_____
113) Review for adequate stated interest on all new or modified debt instruments. Determine whether OID or the unstated interest rules require restatement of note interest and principal. Note new regulations under § 1274.	_____	_____	_____
114) Review for proper reporting of interest recognition in accordance with Reg. §§ 1.483-4 and 1.1274-5 for debt instrument providing contingent.	_____	_____	_____
115) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
116) If accrual method of accounting, note exception from economic performance for recurring items.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
117) Inquire that information regarding beneficiaries' names, social security numbers, addresses, states of residency, dates of birth, etc., is correct.	_____	_____	_____
118) If beneficiary is not a U.S. citizen or resident, obtain current Forms W-8 and 1001, if not up-to-date.	_____	_____	_____
119) Determine if there have been changes in income interests of beneficiaries during the year and document.	_____	_____	_____
120) Determine if there have been changes in rights over corpus during the year.	_____	_____	_____
121) If a trust, determine accounting income as provided under the governing document and applicable state law.	_____	_____	_____
122) Ascertain whether this trust is taxed as a corporation. If so, complete the 1120 checklist.	_____	_____	_____
123) Determine if the grantor (or spouse) has a reversionary interest equal to or greater than 5%.	_____	_____	_____
124) Grantor Trusts: consider filing requirements for both state and federal returns. Under certain circumstances Form 1041 may not be required.	_____	_____	_____
125) Review powers of trustee.	_____	_____	_____
126) Review powers of spouse or others which may cause grantor trust application.	_____	_____	_____
127) Determine situs of trust for state tax filing purposes.	_____	_____	_____
128) Determine residency of trustee and related state income tax return filing requirements as a result of the trustee's residence.	_____	_____	_____
129) Determine if multistate filing is required.	_____	_____	_____
130) Review respective state income tax structure for differences in reporting from federal.	_____	_____	_____
131) If this is a Clifford Trust, list the reversion date _____.	_____	_____	_____
132) Review trust agreement for termination date; list date _____.	_____	_____	_____
133) Determine holding period and adjusted basis of assets acquired via donor gift.	_____	_____	_____
134) Review capital assets for changes (reorganizations, stock dividends, etc.)	_____	_____	_____

1996 - FORM 1041

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ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
208) Disclose exempt interest on state and municipal bonds. Determine deductible portion of administrative expense.	_____	_____	_____
209) Consider excluding interest on United States obligations from the state returns.	_____	_____	_____
210) Consider whether municipal bond interest excluded on federal return should be added back on state return.	_____	_____	_____
211) Review reporting of income tax refunds based on the tax benefit rule.	_____	_____	_____
212) Determine if there was interest on tax refunds.	_____	_____	_____
213) Determine that installment sales are reported properly.	_____	_____	_____
.1) Consider related party rules.	_____	_____	_____
.2) Determine that the full amount of depreciation recapture is reported in the year of sale whether or not payment was received in the year.	_____	_____	_____
.3) Review for adequate stated interest on debt instruments received in connection with the sale. Determine whether original issue discount or unstated interest rules require restatement of note interest and principal.	_____	_____	_____
.4) Determine if the taxpayer is a "dealer" with respect to the related property. If so:			
(a) Determine that the installment method is <u>not</u> used to report post-1987 sales of dealer property. (Exceptions - farm property, certain timeshare rights and residential lots if proper election is made.)	_____	_____	_____
(b) Determine that the interest owed as a result of an election (a) above is properly reported.	_____	_____	_____
.5) Consider special rules for installment reporting by certain non-dealers of real (post-1986 sales) or personal property (post-1988 sales) where the sale price exceeds \$150,000. (§ 453A) (Does not apply to certain farm property.)	_____	_____	_____
(a) Compute the interest charge imposed on tax deferred outstanding installment obligations if the face amount of these obligations that arose during, and are still outstanding at the close of the tax year, exceeds five million dollars.	_____	_____	_____
(b) Determine that the proper amount is treated as a collection on any pledged installment obligation.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.6) Consider electing out of installment method.	_____	_____	_____
.7) Determine if an event has occurred requiring accelerated recognition of the remaining unreported gain (e.g., resale rule for related parties, cancellation of the installment obligation, disposition of the installment obligation).	_____	_____	_____
214) If after year of installment sale, determine that the proper income is reported after giving recognition to recapture amount.	_____	_____	_____
215) If property was sold, exchanged, or involuntarily converted during the year, consider the provisions relating to:			
.1) Nonrecognition of gain or loss (Form 8824).	_____	_____	_____
.2) Recapture of depreciation (including § 291 recapture) and/or tax credits, or reduction of credit carry forwards.	_____	_____	_____
.3) Like-kind exchanges with related parties. Determine if there has been a disposition within two years of transfer.	_____	_____	_____
.4) Presidentially declared disasters. SBJPA 1996.	_____	_____	_____
216) Determine that gains on installment sales made by decedent are properly reported.	_____	_____	_____
217) Consider the effect on basis of nontaxable stock dividends, reinvested dividends and OID.	_____	_____	_____
218) Determine the holding period and federal, state, and AMT tax bases of disposed property.	_____	_____	_____
219) Determine if there has been a sale of a mutual fund and that a proper basis computation has been made.	_____	_____	_____
220) Determine limitations if there has been a sale of a mutual fund at a loss within six months of acquisition, and	_____	_____	_____
.1) a capital gain dividend was received, or	_____	_____	_____
.2) exempt-interest dividend was received.	_____	_____	_____
221) Review application of the wash sale rules.	_____	_____	_____
222) Consider limitations of losses for transactions with related parties.	_____	_____	_____
223) Determine that sales of securities settled after year end, with a trade date within current year, are reported this year. Note special rules for short sales in § 1233.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
224) If there are § 1231 gains, determine the amount subject to ordinary income treatment as a result of five year recapture rule for prior net § 1231 losses.	_____	_____	_____
225) Compare sources of K-1s with prior year. Review current K-1s to determine that all items have been properly reported.	_____	_____	_____
226) Consider limitations of § 465 at risk, § 704(d) and/or § 1366(d) basis rules.	_____	_____	_____
227) If partnership interests are held, determine the following:			
.1) If a decedent was involved, determine if a §754 election was made at partnership level.	_____	_____	_____
.2) If a basis adjustment has occurred, account for differences between "inside" and "outside" basis.	_____	_____	_____
.3) If the final year of a partnership determine that distributions listed on the K-1 were received. Account for any differences and determine proper reporting.	_____	_____	_____
228) If a distribution or technical termination has occurred in a partnership, consider making a § 732(d) election.	_____	_____	_____
229) Determine if there are any passive activities. (See Passive Activity Checklist). Note that activities must be grouped in accordance with Prop. Reg. § 1.469-4.	_____	_____	_____
.1) If an estate, consider the \$25,000 special allowance exception for rental real estate.	_____	_____	_____
.2) Determine if pass-through entity in which the trust has an interest has separately reported activities.	_____	_____	_____
230) If the taxpayer recovered amounts previously deducted, determine if the full benefit was received from prior years' deductions.	_____	_____	_____
231) Determine if the taxpayer has an S corporation or partnership loss carryforward not previously utilized due to insufficient basis and determine if additional basis has been generated in current year to deduct all or a portion of the unused losses.	_____	_____	_____
232) If decedent involved, determine if taxpayer is a Qualified Subchapter S Trust (QSST).	_____	_____	_____
233) If the taxpayer is a QSST shareholder that made loans to the corporation to utilize losses, determine gain on repayment.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
234) If appreciated property is used to fund a pecuniary bequest, determine that gain is recognized and that the new basis is properly reflected.	_____	_____	_____
235) Consider election to recognize gain or loss if property is distributed other than the funding of a pecuniary bequest (§ 643(e)).	_____	_____	_____
236) For leased vehicles and property, obtain the business and personal usages and calculate the appropriate income inclusion amount to be reported by referring to the IRS tables.	_____	_____	_____
237) Inquire if there are worthless securities.	_____	_____	_____
238) Consider ordinary income treatment for gain on sale of market discount bonds:			
.1) Taxable bonds issued after July 18, 1984, or issued before July 19, 1984 and purchased after April 30, 1993.	_____	_____	_____
.2) Tax exempt bonds purchased after April 30, 1993.	_____	_____	_____
239) Consider the mark to market rules for "dealers in securities." Warning: the definition of "dealers in securities" contained in § 475 is not limited to Wall Street brokerage firms. The expansive definition includes many taxpayers involved in lending transactions and various seller financed activities.	_____	_____	_____
.1) Determine that § 475 assets are adjusted to fair market value at the end of the year.	_____	_____	_____
.2) Determine the § 481 adjustment.	_____	_____	_____
.3) Amortize the § 481 adjustment over 5 years (15 years for certain floor specialists and market makers) beginning with the year of change.	_____	_____	_____
.4) Determine if exempt securities were timely identified in taxpayer books and records.	_____	_____	_____
.5) Consider loss limitations for securities not properly identified.	_____	_____	_____
240) Determine if there is income from discharge of indebtedness. See RRA '93.	_____	_____	_____
.1) Consider exclusion and elections under § 108.	_____	_____	_____
.2) Consider Form 982.	_____	_____	_____
241) Inquire if the taxpayer engaged in bartering transactions.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST

1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
242) Consider the proper treatment of qualified/nonqualified plan distributions.	<hr/>	<hr/>	<hr/>
243) Consider the limitation on \$5,000 death benefit exclusion for amounts paid by or on behalf of employer. (SBJPA 1996)	<hr/>	<hr/>	<hr/>
300) DEDUCTIONS			
301) For all businesses of the taxpayer:			
.1) Review the taxpayer's vacation pay policy to determine if a deduction is allowable on the accrual basis (vested at year end and paid within two and one-half months after year end).	<hr/>	<hr/>	<hr/>
.2) Consider applicability of uniform capitalization rules to resellers with annual gross receipts in excess of \$10 million and all producers of property. (Note final regulations related to general rules (§ 1.263A), producers (§ 1.263A-2) and resellers (§ 1.263A-3)).	<hr/>	<hr/>	<hr/>
(a) Determine that all costs are included.	<hr/>	<hr/>	<hr/>
(b) Consider interest capitalization rules for debt incurred to produce property.	<hr/>	<hr/>	<hr/>
(c) If the beginning inventory is revalued to conform to final regulations:			
(i) Ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting (§ 481).	<hr/>	<hr/>	<hr/>
(ii) Ascertain § 481 forward spread period (not to exceed four years).	<hr/>	<hr/>	<hr/>
(iii) Determine that Form 3115 is attached to the tax return for the year of change.	<hr/>	<hr/>	<hr/>
(iv) consider electing "simplified" methods.	<hr/>	<hr/>	<hr/>
(d) For farmers and ranchers consider:			
(i) One-time election out of uniform capitalization rules if election was not required in a prior year.	<hr/>	<hr/>	<hr/>
(ii) The exemption for expenses incurred in the production of animals.	<hr/>	<hr/>	<hr/>

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(e) Review the definition of "produce" (Reg. § 1.263A-2(a)(1)(i)).	_____	_____	_____
.3) Long-Term Contracts			
(a) Determine if the taxpayer is subject to the long-term contract reporting rules requiring that the percentage of completion method, instead of the completed contract method, be used to determine taxable income. Note exceptions for certain qualifying construction contracts and most contracts for the manufacture of property.	_____	_____	_____
(b) In determining whether contracts of the taxpayer are subject to the percentage of completion method of reporting, consider:			
(i) Related party rules.	_____	_____	_____
(ii) Contract aggregation rules.	_____	_____	_____
(c) Determine that the percentage of completion is calculated based on costs incurred, not work performed.	_____	_____	_____
(d) Determine that all required costs have been allocated to the contracts. Note the expanded requirement to capitalize costs similar to the uniform capitalization rules.	_____	_____	_____
(e) Consider electing the simplified method of allocating costs, whereby fewer costs are taken into account, to determine the degree of contract completion.	_____	_____	_____
(f) Consider electing the modified percentage of completion method, whereby the recognition of income and accounting for costs is deferred until the first tax year in which at least 10% of the estimated total contract costs have been incurred as of the end of that year. Note that this election is not available if the simplified method above has been elected.	_____	_____	_____
(g) Upon completion of a contract, determine that the "look-back rule" as been applied to compare actual contract price and costs to previously used estimates and pay/claim interest on the related changes in prior years taxes on Form 8697. Note that certain small contracts are not subject to the "look-back rule."	_____	_____	_____
302) Complete Schedule C or F (Form 1040) for schedule of cost of operations and verify that beginning and ending inventory agree with books.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
303) Inquire whether the trust or estate can substantiate by adequate records, as required under § 274(d), expenses claimed for entertainment, entertainment facilities, gifts and travel. Limit meals and entertainment to allowable percentage. (Consider exceptions.) Consider optional per diem method. Note new \$75 substantiation requirement. See Reg. § 1.274-5T(c)(2)(iii).	<hr/>	<hr/>	<hr/>
304) Determine the deductibility of club dues. (§ 274(a)(3))	<hr/>	<hr/>	<hr/>
305) Inquire if trade association dues include nondeductible lobbying expenses.	<hr/>	<hr/>	<hr/>
306) Determine that certain lobbying expenses are not deducted. Note exceptions.	<hr/>	<hr/>	<hr/>
307) Prepare a schedule of other deductions. Determine which expenses are not subject to the 2% rule. Determine the deductible portion of administrative expenses based on the ratio of taxable to entire income (a simultaneous equation).	<hr/>	<hr/>	<hr/>
308) Determine if the trust or estate is entitled to an estate tax deduction for income in respect of a decedent and allocate between the beneficiaries and estate or trust (§ 691(c)).	<hr/>	<hr/>	<hr/>
309) Allocation of interest expense:			
.1) Determine that the proper allocations have been made by type (investment, passive, tax exempt, etc.).	<hr/>	<hr/>	<hr/>
.2) For interest on debts allocated to more than one expenditure, determine that the proper ordering of loan repayments has been considered.	<hr/>	<hr/>	<hr/>
.3) Determine that the interest has been properly reallocated to the expenditure when either:			
(a) The subject of the first expenditure has been disposed of and the proceeds are used for another expenditure; or	<hr/>	<hr/>	<hr/>
(b) The character of the expenditure has changed.	<hr/>	<hr/>	<hr/>
310) Investment interest:			
.1) Limit the trust or estate's deduction for investment interest to net investment income.	<hr/>	<hr/>	<hr/>
.2) In computing net investment income, deduct investment expenses after the application of the 2% AGI floor.	<hr/>	<hr/>	<hr/>

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Consider the election to treat net long term capital gains as investment income subject to ordinary income tax rates. (See RRA '93.)	_____	_____	_____
311) Determine that personal interest was not deducted.	_____	_____	_____
312) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
313) Other interest considerations:			
.1) Treat amortizable bond premium (for bonds acquired after 1987) as an offset to interest income.	_____	_____	_____
.2) Consider the capitalization of interest rules when the taxpayer is constructing or producing certain real or tangible personal property.	_____	_____	_____
.3) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on beneficial owners and key employees to the extent that the total of such loans exceeds \$50,000. Note phase-out rules under 1996 HIPAA.	_____	_____	_____
.4) Consider election to amortize bond premium on taxable bonds.	_____	_____	_____
.5) Determine if interest was paid pursuant to § 6166.	_____	_____	_____
.6) Determine if interest was paid on a residence which is occupied by a beneficiary.	_____	_____	_____
314) Consider disallowance of double deductions, i.e., administrative expenses and losses during administration, claimed on Form 706. Attach election if claimed on Form 1041.	_____	_____	_____
315) Determine that deductions for taxes, interest, business expenses and other items accrued at the date of death are claimed on both Forms 706 and 1041.	_____	_____	_____
316) Determine that indirect expenses are allocated between taxable and tax exempt income.	_____	_____	_____
317) Consider distribution deduction election if there are qualifying 65-day distributions from the trust.	_____	_____	_____
318) Determine amount of the distribution deduction.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
319) Compute distributable net income (DNI):			
.1) Determine that direct and indirect expenses have been properly allocated to the various classes of income (including tax exempt and passive activities).	_____	_____	_____
.2) Ascertain if capital gains are required to be allocated to DNI.	_____	_____	_____
320) Determine if charitable contributions are accounted for in accordance with trust instrument.	_____	_____	_____
.1) Inquire if all contributions are to qualified charitable organizations.	_____	_____	_____
.2) Ascertain that charitable contributions have been properly allocated to tax exempt income.	_____	_____	_____
.3) Complete Forms 1041-A and 5227.	_____	_____	_____
.4) Determine that charitable contributions are made from gross income or accumulated gross income (not from corpus).	_____	_____	_____
.5) Inquire if adequate contemporaneous documentation was obtained for contributions of \$250 or more.	_____	_____	_____
321) Inquire whether the trust or estate has bad debts.	_____	_____	_____
322) Review partially worthless debts for write-off under Temp. Reg. § 1.166-3T.	_____	_____	_____
323) Consider limitations on deducting expenses related to federally tax exempt income. Note that these expenses may be deductible at the state level if related income is taxable for state purposes.	_____	_____	_____
324) If this is first year that the taxpayer has incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception (Rev. Proc. 92-28).	_____	_____	_____
325) Consider option to deduct current year qualifying disaster losses on preceding year tax return by filing an amended return.	_____	_____	_____
400) DEPRECIATION			
401) Determine whether the trustee is required to maintain a reserve for depreciation.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
402) For assets placed in service during the current year:			
1) Determine that no § 179 election to expense certain depreciable assets has been made since this election is not allowed to estates and trusts.	_____	_____	_____
.2) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property placed in service after June 30, 1993.	_____	_____	_____
.3) Determine the depreciable basis of each asset.	_____	_____	_____
.4) Determine the property class, recovery period and depreciation method for each asset. Note changes in recovery periods for certain non-residential real property acquisitions after May 13, 1993 (Rev. Procs. 87-56, 88-22 and RRA '93).	_____	_____	_____
.5) Determine the applicable convention (half-year, mid-quarter or mid-month).	_____	_____	_____
.6) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period (RRA '93).	_____	_____	_____
.7) Consider 36-month depreciation rules for software.	_____	_____	_____
.8) Consider reduced depreciable lives for real estate improvements and special use structure.	_____	_____	_____
.9) Consider electing the Alternative Depreciation System (straight line over an ADS recovery period) for qualifying General Depreciation System property.	_____	_____	_____
.10) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.	_____	_____	_____
.11) If property is leased to a tax exempt entity, consider the possible need to use the ADS.	_____	_____	_____
.12) Consider depreciation limitations for IDB financed property, and certified historic structures for which a tax credit was taken.	_____	_____	_____
.13) If a short year, determine that Rev. Proc. 89-15 is followed.	_____	_____	_____
.14) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2 (d)(3).	_____	_____	_____
.15) Determine if interest is payable under look-back method where income forecast method is used (SBJPA 1996).	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST

1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
403) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____
404) Consider the provisions of Rev. Proc. 96-31 to rectify prior year claims of less than allowable depreciation or amortization.	_____	_____	_____
405) Determine if leased property/equipment should be capitalized.	_____	_____	_____
406) Consider anti-churning rules.	_____	_____	_____
407) For listed property (e.g., cellular phones, autos, computers, airplanes, boats):			
.1) For autos, consider the maximum allowable under the luxury auto rules.	_____	_____	_____
.2) For autos, determine limitation if the business usage is 50% or less.	_____	_____	_____
.3) Determine limitations for all other mixed-use property, if the business usage is 50% or less.	_____	_____	_____
.4) Inquire if the taxpayer has kept the required records indicating the business and personal use of property.	_____	_____	_____
5) Determine recapture if the business usage is 50% or less.	_____	_____	_____
408) Form 4562 (if required):			
.1) Reconcile depreciation expense to supporting schedules.	_____	_____	_____
.2) Complete questions regarding personal use of listed property.	_____	_____	_____
.3) If the costs were incurred during the current year, determine that amortizable items are separately stated and the proper Code section cited.	_____	_____	_____
409) Consider state depreciation, if different.	_____	_____	_____
410) Consider federal and state AMT depreciation and state (if different) depreciation.	_____	_____	_____
411) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture.	_____	_____	_____
500) TAX COMPUTATION AND CREDITS			
501) Consider capital gains tax computation.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
502) Complete Schedule H (AMT).	_____	_____	_____
503) Alternative minimum tax must be computed by making adjustments such as:			
.1) Depreciation on property placed in service after 1986 (or July 31, 1986 if election was made) must be computed using the alternative system (Rev. Proc. 87-57).	_____	_____	_____
.2) Mining, exploration research & experimental costs must be capitalized and amortized over a 10-year period.	_____	_____	_____
.3) Income from long-term contracts entered into after February 28, 1986 must be computed using the percentage of completion method of accounting. Note exception for "home construction contracts."	_____	_____	_____
.4) Income from post-February 28, 1986 dispositions of real or personal property held for sale in the ordinary course of business shall be determined without regard to the installment method, except in cases where an election is made to pay interest on the tax deferred by the qualified installment sale.	_____	_____	_____
.5) Use AMT net operating loss (NOL) deduction in place of the regular NOL deduction. Post-1986 AMT NOL is available only to the extent of 90% of pre-NOL AMTI.	_____	_____	_____
.6) Compute gains/losses on sales and exchanges using the AMT adjusted basis.	_____	_____	_____
.7) Adjust itemized deductions for the following AMT rules:			
(a) No deduction is allowed for miscellaneous itemized deductions subject to 2% limit or most taxes.	_____	_____	_____
(b) State tax refunds are excluded from AMTI.	_____	_____	_____
(c) Qualified housing interest is restricted.	_____	_____	_____
.8) The following preference items must be added:			
(a) Excess intangible drilling costs.	_____	_____	_____
(b) Tax-exempt interest on private activity bonds issued after August 7, 1986.	_____	_____	_____
(c) Accelerated depreciation on real and leased personal property placed in service before 1987.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.9) Consider special rules denying certain losses for AMT purposes:			
(a) Net passive activity losses as adjusted for tax preferences. (Form 8582).	_____	_____	_____
(b) Certain farm losses.	_____	_____	_____
(c) Insolvent trusts.	_____	_____	_____
.10) Consider foreign tax credits.	_____	_____	_____
.11) Compute Distributable Net Alternative Minimum Taxable Income.	_____	_____	_____
504) Consider tax credits such as:			
.1) Business energy credits.	_____	_____	_____
.2) Foreign tax credit.	_____	_____	_____
.3) Investment tax credit (rehabilitation, transition and carryovers).	_____	_____	_____
.4) Credit for federal tax on gasoline, special fuels and lubricating oil.	_____	_____	_____
.5) Low income housing credit.	_____	_____	_____
.6) Consider the Work Opportunity Credit for eligible employees after September 30, 1996 (SBJPA 1996).	_____	_____	_____
.7) Consider the credit for qualified clinical testing expenses (Orphan Drug Credit), paid or incurred after June 30, 1996 and associated carrybacks and carryovers (SBJPA 1996).	_____	_____	_____
505) If filing multistate returns, determine if a credit may be claimed on resident state tax return for taxes paid to other states.	_____	_____	_____
506) Determine if the trust or estate is subject to:			
.1) Investment credit recapture.	_____	_____	_____
.2) § 644 tax upon sale of appreciated property within two years after transfer to trust.	_____	_____	_____
.3) The GST as the result of the death of a beneficiary.	_____	_____	_____
507) Allocate each item to the beneficiaries' K-1s in accordance with provisions of the trust agreement or will.	_____	_____	_____
508) Determine if separate share rule applies to trust (§ 663(c)).	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
509) Reconcile accounting income per books with distributable net income.	_____	_____	_____
510) Confirm the amounts and dates of any federal, state and local estimated tax deposits/payments (including withholding) for the year, prior year over-payments applied, and extension payments.	_____	_____	_____
511) If withholding and estimated tax payments are less than 90% of the tax liability, consider filing Form 2210.	_____	_____	_____
512) Consider estimated tax for the forthcoming year and set up estimated tax payments. Determine if prior year 100% or 110% rule applies. (Estates are exempt from estimated payment requirement for first two years.) Consider related electronically required deposits.	_____	_____	_____
600) OTHER REQUIREMENTS			
601) If the trust or estate sold partnership interests during the year, determine that the appropriate information was given to the partnership to enable it to prepare Form 8308.	_____	_____	_____
602) Determine if Form 8271 is required for tax shelters. Attach to Schedule K-1.	_____	_____	_____
603) Consider capitalizing carrying charges (interest, taxes, etc.) on non-productive property.	_____	_____	_____
604) Consider the election to forego a net operating loss carryback:			
.1) If electing to forego - attach required statement.	_____	_____	_____
.2) If carrying back - a) prepare 1045 or amended 1041.	_____	_____	_____
b) prepare amended Schedule K-1.	_____	_____	_____
605) Determine that proper classification has been provided for all items on Schedule K-1.	_____	_____	_____
606) If this is a final return for the trust or estate, ascertain the deductions to be carried to the returns of the beneficiaries and prepare a schedule of assets, including adjusted basis, distributed to each beneficiary.	_____	_____	_____
607) Consider unused losses and deductions to be transferred to beneficiaries in final year.	_____	_____	_____
608) Determine that unused passive activity losses pertaining to an interest in an activity being distributed to a beneficiary are either added to the basis of the property distributed, or treated as a sale with deduction of carryovers.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
609) Determine if trust payments of estimated tax should be allocated to beneficiaries and file return in appropriate time period; Form 1041-T must be filed within 65 days of the taxable year end.	_____	_____	_____
610) Prepare Schedule J if trust made an accumulation distribution. Determine if exceptions to the throwback rule exist.	_____	_____	_____
611) Consider § 6662 accuracy-related penalty. If this penalty could result from any income, deduction, loss or credit item which causes a substantial change in the beneficiary's return and causes the preparer to rise to the level of preparer of the beneficiary's return:			
.1) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275 or 8275R).	_____	_____	_____
.2) Consider advising the taxpayer, in writing, of the penalty.	_____	_____	_____
612) Prepare state and local tax returns. Review each state's modification requirements.	_____	_____	_____
613) Attach extension requests.	_____	_____	_____
614) Prepare filing instructions and transmittal letter to the trustee or executor.	_____	_____	_____
615) If the taxpayer has made an "applicable asset acquisition" (transfer of assets that constitute a trade or business), determine that reporting requirements regarding allocation of purchase price have been met (Form 8594).	_____	_____	_____
616) Compare taxable income to projections for reasonableness.	_____	_____	_____
617) If there is more than one trustee or executor, attach statement required pursuant to § 6012(b)(5). ("Sufficient knowledge")	_____	_____	_____
618) Determine whether related party transactions are properly reported on all available returns.	_____	_____	_____
619) Determine if Form TD F 90-22.1 is needed to report foreign financial accounts.	_____	_____	_____
620) Information returns:			
.1) Inquire if taxpayer has complied with magnetic media filing requirements for 1099s and W-2s.	_____	_____	_____
.2) Inquire whether the trust has filed all required information returns (1098 and 1099 series) and whether the value of personal use portion of employer property expense reimbursements under			

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST

1996 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
“unaccountable plans” and § 401(k) deferred compensation information has been included in employees’ W-2s.	_____	_____	_____
.3) Inquire if additional items subject to employer FICA, such as 401(k) deferrals, employer-provided excess group-term insurance, all cash tips, etc., have been properly reported.	_____	_____	_____
621) Inquire if employment taxes were timely deposited.	_____	_____	_____
622) Determine if there has been a taxable distribution for generation skipping tax purposes. Consider preparation of Forms 706GS(D-1), 706GS(T) and 706GS(D).	_____	_____	_____
623) Determine if expenditures were incurred that are eligible for the disabled access credit (see Form 8826). If the taxpayer does not qualify for the credit or has expenditures in excess of the credit limit, consider making § 190 election to expense the cost.	_____	_____	_____
624) Consider informing taxpayer of requirement to file Form 8300 for certain payments received exceeding \$10,000.	_____	_____	_____
625) Note tax planning suggestions.	_____	_____	_____

COMMENTS OR EXPLANATIONS

MINI-CHECKLIST

PARTNERSHIP RETURN OF INCOME

1996 - FORM 1065

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

Done N/A

Done N/A

GENERAL INFORMATION

- | | | |
|--|--------------------------|--------------------------|
| 1. Review for changes in the partnership's and partners' names and addresses, FYE, business code. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Review prior year returns, workpapers, correspondence, audit results and amendments to the partnership agreement. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Consider signed engagement letter. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Determine if the partnership is a limited partnership. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Review pro forma for accuracy. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Determine if the partnership agreement complies with the 704(b) regulations. (See § 704(b) tax practice guide). | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Consider below-market-rate loan rules. | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Determine if there has been a technical termination of the partnership. | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. Determine if the partnership is on the "required" year end. | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. Determine if there were partnership ownership changes. | <input type="checkbox"/> | <input type="checkbox"/> |
| Consider § 754 election. | <input type="checkbox"/> | <input type="checkbox"/> |
| Consider Form 8308. | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. Determine if § 704(c) regulations have been applied to contributions of property by a partner. | <input type="checkbox"/> | <input type="checkbox"/> |
| 12. Provide UBTI data to tax exempt partners. | <input type="checkbox"/> | <input type="checkbox"/> |
| 13. Review financial statements and footnotes for relevant information. | <input type="checkbox"/> | <input type="checkbox"/> |
| 14. Consider tax credits. (SBJPA 1996) | <input type="checkbox"/> | <input type="checkbox"/> |
| 15. Consider debt discharge and the exceptions to recognition. | <input type="checkbox"/> | <input type="checkbox"/> |
| 16. Consider filing Form 8821 or 2848. | <input type="checkbox"/> | <input type="checkbox"/> |

INCOME

- | | | |
|--|--------------------------|--------------------------|
| 1. Compare sources of portfolio income with prior year. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Include only trade or business income on page 1, Form 1065. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Calculate gains, losses and recaptures on dispositions of property. | <input type="checkbox"/> | <input type="checkbox"/> |

4. Consider the following:

- | | | |
|--|--------------------------|--------------------------|
| Installment sales and related interest charge on deferred tax | <input type="checkbox"/> | <input type="checkbox"/> |
| Timing differences | <input type="checkbox"/> | <input type="checkbox"/> |
| Wash sales | <input type="checkbox"/> | <input type="checkbox"/> |
| Ordinary income on market discount bonds and deferral of related interest expense. | <input type="checkbox"/> | <input type="checkbox"/> |
| Sales or exchanges with a partner | <input type="checkbox"/> | <input type="checkbox"/> |
| Worthless securities | <input type="checkbox"/> | <input type="checkbox"/> |
| Like-kind exchanges | <input type="checkbox"/> | <input type="checkbox"/> |

DEDUCTIONS

- | | | |
|--|--------------------------|--------------------------|
| 1. Consider the uniform capitalization rules. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Determine if Form 8283 is required for non-cash charitable contributions. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Determine if there were guaranteed payments to partners. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Inquire if travel and entertainment expenses are substantiated by adequate records. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Consider limitations on deductibility of: | | |
| Club dues | <input type="checkbox"/> | <input type="checkbox"/> |
| Lobbying expenses | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Limit meals and entertainment to allowable percentage. | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Allocate interest expense among expenditures and/or distributions. | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Review amount and timeliness of retirement plan contributions. | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. Determine if specific chargeoff method is used for bad debts. | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. Determine applicability of 2½ month deferred comp rule for nonpartner employees and independent contractors. | <input type="checkbox"/> | <input type="checkbox"/> |

DEPRECIATION/AMORTIZATION

1. Consider the following:

- | | | |
|---|--------------------------|--------------------------|
| § 179 election | <input type="checkbox"/> | <input type="checkbox"/> |
| Methods and lives | <input type="checkbox"/> | <input type="checkbox"/> |
| Amortization of goodwill and other intangibles. | <input type="checkbox"/> | <input type="checkbox"/> |
| Capitalization of leased property. | <input type="checkbox"/> | <input type="checkbox"/> |
| Requirements relating to listed property. | <input type="checkbox"/> | <input type="checkbox"/> |

- | | | |
|--------------------------------------|--------------------------|--------------------------|
| 2. Compute AMT and ACE depreciation. | <input type="checkbox"/> | <input type="checkbox"/> |
|--------------------------------------|--------------------------|--------------------------|

MINI-CHECKLIST
PARTNERSHIP RETURN OF INCOME
1996 - FORM 1065

Done N/A

PARTNER DATA - SCHEDULE K-1

- | | | | |
|--|--------------------------|--------------------------|--|
| 1. Complete the analysis of distributive items at the bottom of Schedule K. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 2. Consider the at risk rules. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 3. Report pre-1987 installment sale as passive. (See Passive Activity Checklist). | <input type="checkbox"/> | <input type="checkbox"/> | |
| 4. Reconcile partners capital per Schedule L to Schedule M-2. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 5. Complete each partner's reconciliation of capital. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 6. Allocate partner debt pursuant to § 752. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 7. Ensure the partnership and K-1s report results on an activity by activity basis. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 8. Allocate each item on Schedule K to the partners per the partnership agreement and § 704(b). (See § 704(b) tax practice guide). | <input type="checkbox"/> | <input type="checkbox"/> | |
| 9. Provide information for all items on the K-1 that affect partner's tax liability. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 10. Determine if tax shelter registration number is required. | <input type="checkbox"/> | <input type="checkbox"/> | |

OTHER REQUIREMENTS

- | | | | |
|--|--------------------------|--------------------------|--|
| 1. Compute net earnings from self-employment. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 2. Consider the following elections and statements such as: | | | |
| Amortize organization expense | <input type="checkbox"/> | <input type="checkbox"/> | |
| Cash vs. accrual | <input type="checkbox"/> | <input type="checkbox"/> | |
| Amortize business startup costs | <input type="checkbox"/> | <input type="checkbox"/> | |
| Method for valuation of inventory | <input type="checkbox"/> | <input type="checkbox"/> | |
| Research and experimental costs | <input type="checkbox"/> | <input type="checkbox"/> | |
| Exception from economic performance for recurring items (first year only). | <input type="checkbox"/> | <input type="checkbox"/> | |
| Ratable accrual of real property taxes (first year only). | <input type="checkbox"/> | <input type="checkbox"/> | |
| 3. Determine if the partnership was a party to "applicable asset acquisition" (Form 8594). | <input type="checkbox"/> | <input type="checkbox"/> | |
| 4. Inquire if all information returns filed. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 5. Consider § 6662 accuracy-related penalty. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 6. Determine if there was any § 751 gain (unrealized receivables) to existing partners due to admission of new partners. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 7. Compare net income or loss to projections. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 8. Prepare state and local tax returns and report necessary partner information. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 9. Attach extension requests. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 10. Note tax planning suggestions. | <input type="checkbox"/> | <input type="checkbox"/> | |

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review and update the partnership's and partners' names, addresses, fiscal year, business code, identification number, date business started, and IRS and other tax processing centers.	_____	_____	_____
102) Review permanent file, prior year returns, work papers and correspondence files.	_____	_____	_____
103) Consider signed engagement letter.	_____	_____	_____
104) Identify the name, address and identifying number of the "Tax Matters" partner.	_____	_____	_____
105) Obtain information concerning IRS, state tax audits and/or correspondence.	_____	_____	_____
106) Verify that a copy of the partnership agreement and all amendments are in the permanent file.	_____	_____	_____
107) If the taxpayer is an LLC, document the status as a partnership.	_____	_____	_____
108) Determine if the partnership is a limited partnership.	_____	_____	_____
109) Review computer-generated pro forma for accuracy.	_____	_____	_____
110) If the partnership has a passive activity, note that the activity definitions in the regulations apply to partnerships (see Passive Activity Checklist).	_____	_____	_____
111) Determine that the partnership agreement complies with the § 704 regulations. (See § 704(b) Tax Practice Guide.)	_____	_____	_____
112) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
113) If the partnership is using an improper accounting method, consider filing an application for a change in accounting method.	_____	_____	_____
114) Consider economic performance requirements and recurring item exceptions.	_____	_____	_____
115) Inquire whether the partnership has made or received any below-market-rate term or demand loans. If so, determine imputed interest consequences.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
116) Review for adequate stated interest on all new or modified debt instruments.	_____	_____	_____
117) Determine if there has been any change in the partnership's ownership and/or a technical termination during the year. If there was a technical termination, consider the need for a short period return.	_____	_____	_____
118) If there were any sales or exchanges of partnership interests, or partner deaths during the current year, consider whether a § 754 election has been, or should be made.	_____	_____	_____
119) Determine if § 704(c) regulations have been applied to contributions of property by partners.	_____	_____	_____
120) Consider the consequences if the partnership has a year other than that which is "required."	_____	_____	_____
121) Determine if the partnership had any discharge of indebtedness income. If so, consider the exceptions to recognition.	_____	_____	_____
122) Provide UBTI information to tax-exempt partners.	_____	_____	_____
123) Review financial statements and footnotes for relevant information.	_____	_____	_____
124) Consider availability of tax credits. (SBJPA 1996)	_____	_____	_____
125) Consider filing Form 8821 or 2848.	_____	_____	_____
200) INCOME			
201) Compare sources and amounts of portfolio income with prior year.	_____	_____	_____
202) Determine that only trade or business (e.g., not portfolio or rental) income is reported on Page 1 of Form 1065.	_____	_____	_____
203) Review dispositions of property for holding period and federal, state, AMT and ACE tax bases, non-recognition and recaptures.	_____	_____	_____
204) Consider the following:			
.1) Installment sales and related interest charge on deferred tax.	_____	_____	_____
.2) Timing differences.	_____	_____	_____
.3) Wash sales.	_____	_____	_____
.4) Sales or exchanges between the partnership and a partner, or a related party.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Income inclusion for leased property.	_____	_____	_____
.6) Worthless securities.	_____	_____	_____
.7) Like-kind exchanges.	_____	_____	_____
.8) New rules for involuntary conversions of post-1994 Presidentially-declared disasters (SBJPA 1996).	_____	_____	_____
205) Consider mark to market rules for "dealers in securities" (§ 475).	_____	_____	_____
206) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
300) DEDUCTIONS			
301) Consider the uniform capitalization rules.	_____	_____	_____
302) Inquire if adequate contemporaneous documentation was obtained for charitable contributions of \$250 or more.	_____	_____	_____
303) If noncash charitable contributions exceed \$500, attach Form 8283.	_____	_____	_____
304) Determine that all guaranteed payments have been deducted in computing ordinary income, or have been capitalized as required.	_____	_____	_____
305) Inquire whether the partnership can substantiate by adequate records, as required under IRC § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel, conventions.	_____	_____	_____
306) Consider limitations on deductibility of:			
.1) Club dues	_____	_____	_____
.2) Lobbying expenses.	_____	_____	_____
307) Limit meals and entertainment to allowable percentage. Consider exceptions.	_____	_____	_____
308) Verify that the proper allocations have been made dividing interest expense among expenditures and/or distributions.	_____	_____	_____
309) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
310) Determine that retirement plan contributions are made timely and within allowable limits.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
311) Determine that the partnership has not deducted interest or expenses accrued to a partner or a related party unless it is includible in the income of the partner or related party (§ 267).	_____	_____	_____
312) Determine that expenses (including interest) allocable to portfolio income have not been deducted on Page 1, Form 1065.	_____	_____	_____
313) Determine that the specific write-off method is used for bad debts.	_____	_____	_____
314) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) Consider all depreciation requirements and options including:			
.1) § 179 election.	_____	_____	_____
.2) Consider 36-month depreciation rules for software.	_____	_____	_____
.3) Methods and lives.	_____	_____	_____
.4) Determine if leased property should be capitalized.	_____	_____	_____
.5) Requirements relating to listed property.	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods. (See RRA '93)	_____	_____	_____
403) Consider tax preference depreciation and depreciation adjustments.	_____	_____	_____
500) PARTNER DATA - SCHEDULE K-1			
501) Complete the analysis of distributive items at the bottom of Schedule K.	_____	_____	_____
502) Consider the at risk rules.	_____	_____	_____
503) Consider whether income from a pre-1987 installment sale should be considered passive income.	_____	_____	_____
504) Verify that the beginning and ending total partners' capital figures on Schedule L agree with the reconciliation of partners' capital accounts—Schedule M-2.	_____	_____	_____
505) Complete each partner's reconciliation of capital. Make sure each column total agrees to the corresponding line on Schedule M-2.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
506) Determine the allocation of the partnership's recourse, nonrecourse and qualified nonrecourse liabilities pursuant to § 752 and enter separately on each partner's Schedule K-1.	_____	_____	_____
507) Ensure that the partnership and K-1s report results on an activity by activity basis.	_____	_____	_____
508) Distribute each item on Schedule K among the K-1s in accordance with provisions of the partnership agreement, or in accordance with § 704(b) if the partnership agreement is silent on § 704(b). (See § 704(b) Tax Practice Guide).	_____	_____	_____
509) Determine whether the partnership was required to register as a tax shelter. Place the registration number on each K-1.	_____	_____	_____
510) Determine that proper reporting has been provided for all items on Schedule K-1 that affect partners' tax liability.	_____	_____	_____
600) OTHER REQUIREMENTS			
601) Compute net earnings from self-employment.	_____	_____	_____
602) Consider elections and statements such as:			
.1) Amortization of organization expenses.	_____	_____	_____
.2) Cash vs. accrual method.	_____	_____	_____
.3) Amortization of business start-up costs.	_____	_____	_____
.4) Method of valuation of inventory.	_____	_____	_____
.5) Research and experimental costs.	_____	_____	_____
.6) Exception from economic performance for recurring items (first year only).	_____	_____	_____
.7) Ratable accrual of real property taxes (first year only).	_____	_____	_____
603) If the partnership is a party to an "applicable asset acquisition," determine that the reporting requirements have been met (Form 8594).	_____	_____	_____
604) Consider risk of § 6662 accuracy-related penalty.	_____	_____	_____
605) If a partnership interest was sold during the year, attach Form 8308 (if required), and send a copy to the transferor and transferee.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
606) If a new partner was admitted, determine if existing partners realized ordinary income due to a reduction in their share of unrealized receivables.	_____	_____	_____
607) Compare net income or loss to projections.	_____	_____	_____
608) Review prior year's return Schedule M-1, for items which may have an effect upon or require similar treatment in the current year.	_____	_____	_____
609) Reconcile income and expenses per books with return.	_____	_____	_____
610) Prepare state and local tax returns (see Nexus Guide). Furnish necessary information to partners.	_____	_____	_____
611) Attach extension requests.	_____	_____	_____
612) Determine that related party transactions are properly reported on all available returns.	_____	_____	_____
613) Inquire if information returns (1098 & 1099 series) have been filed.	_____	_____	_____
614) Inquire if employment taxes were timely deposited.	_____	_____	_____
615) Inquire if employee benefit plans have been reviewed to determine if they are in compliance due to changing partnership circumstances and law changes.	_____	_____	_____
616) Note tax planning suggestions.	_____	_____	_____

COMMENTS OR EXPLANATIONS

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review the partnership's and partners' names, addresses, fiscal year, business code, identification number, date business started and IRS and other tax processing centers. Note changes.	_____	_____	_____
102) Review permanent file, prior year returns, memos, workpapers, and correspondence files.	_____	_____	_____
103) Consider signed engagement letter.	_____	_____	_____
104) Identify the name, address and identifying number of the Tax Matters Partner if the partnership is subject to the consolidated audit procedures of §§ 6221-6233.	_____	_____	_____
105) If the partnership has been examined by the Internal Revenue Service, state or local taxing authority:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine if the agent's adjustments have been entered in the partnership's records and appropriate carry forward workpapers.	_____	_____	_____
.3) If the agent's adjustments affect income tax returns of years other than those audited, or the corresponding federal and state returns for the same year, consider filing amended returns.	_____	_____	_____
.4) Inquire whether the Tax Matters Partner has informed the partners of an examination by the IRS or state agency.	_____	_____	_____
106) Verify that a copy of the partnership agreement and all amendments are in the permanent file, or document in the permanent file why this is thought to be a partnership for federal and state income tax purposes.	_____	_____	_____
107) If the taxpayer is a limited liability company, obtain a copy of the operating agreement and document the status as a partnership.	_____	_____	_____
108) Determine if the partnership is a limited partnership.	_____	_____	_____
109) Review and update, schedules for federal and state carryover items such as:			
.1) Prior year deferred deductions.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Installment sales.	_____	_____	_____
.3) Changes in accounting methods requiring § 481 adjustments.	_____	_____	_____
.4) Suspended losses due to at risk limitations.	_____	_____	_____
.5) Partnership basis.	_____	_____	_____
110) Review computer-generated pro forma for accuracy.	_____	_____	_____
111) Determine if there were passive activities. (See Passive Activity Checklist). Note that partnerships must group their activities in accordance with the regulations.	_____	_____	_____
112) Determine if the partnership agreement complies with the § 704 regulations. (See § 704(b) Tax Practice Guide).	_____	_____	_____
.1) If there is nonrecourse debt:			
(a) Consider the safe harbor provisions that if met, ensure that the allocations of deductions attributable to nonrecourse debt will be deemed to be in accordance with the partner's interest in the partnership. (Reg. § 1.704-2(e)).	_____	_____	_____
(b) Determine whether a minimum gain calculation may be necessary in order to ensure proper allocation of deductions attributable to the nonrecourse debt.	_____	_____	_____
.2) Determine if there were any partner or related party loans or guarantees. If so, consider requirement to specially allocate losses to that partner. (Reg. § 1.704-2(i)).	_____	_____	_____
113) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
114) Consider economic performance requirement and item exceptions.	_____	_____	_____
115) If the partnership is on the cash basis, determine if it must be on the accrual basis due to:			
.1) Classification as a tax shelter under § 461(i)(3).	_____	_____	_____
.2) A C corporation partner. Consider exceptions which allow partnerships with corporate partners to be on the cash basis:			
.a) \$5 million gross receipts test	_____	_____	_____
.b) "function exception"	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
116) Inquire whether the partnership has made or received below-market-rate term or demand loans. Determine imputed interest consequences.	_____	_____	_____
117) Review for adequate stated interest on all new or modified debt instruments. Determine whether original issue discount (OID) or the below market interest rules require restatement of note interest and principal. Note new regulations under § 1274.	_____	_____	_____
118) Review for proper reporting of interest recognition in accordance with Regs. §§ 1.483-4 and 1.1274-5 for debt instruments providing contingent payments.	_____	_____	_____
119) Determine if there has been a change in the partnership's ownership and/or a technical termination during the year.	_____	_____	_____
120) If a technical termination of the partnership occurred, consider the effect on partnership elections, the basis of partnership property, depreciation methods, potential credit recapture, ability to deduct unamortized costs and the need to file short period returns (§ 708).	_____	_____	_____
121) If there has been a distribution of appreciated partnership property (either an actual distribution or a deemed distribution as a result of a technical termination of the partnership), consider the impact of the mandatory basis adjustment rule under § 732(d).	_____	_____	_____
122) If there has been a distribution of partnership property, determine whether § 737 requires any partner to recognize gain. If so, the partnership's adjusted basis in the contributed property is adjusted accordingly. Note newly issued Prop. Reg. § 1.731-2 and final Reg. § 1.737.	_____	_____	_____
123) If there were any sales or exchanges of partnership interests or partner deaths during the current year, determine if a § 754 election has been or should be made. If made, an adjustment to the basis of partnership property is mandatory. Note that if the partnership is a partner in another partnership, a § 754 election is necessary at both tiers.	_____	_____	_____
124) Determine whether property has been contributed by a partner after March 31, 1984, and if so, that <u>all</u> items of income, gain, loss and deductions are shared among the partners to take into account the variation between the basis of the property to the partnership and its value. (Note the new final regulations under § 704(c)).	_____	_____	_____
125) If the partnership has selected an allowable fiscal tax year other than the "required year," determine that Form 8716 has been timely filed, and that "required payments" have been made. Note that a copy of Form 8716 must be attached to Form 1065 for the first taxable year for which the election is made.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
126) Consider whether changes in partners' taxable years modify the partnership's "required year." Consider the need for short period returns.	_____	_____	_____
127) If the return is for a short-year, review the related requirements, and note the due date.	_____	_____	_____
128) Determine if the partnership is a publicly traded partnership.	_____	_____	_____
129) Determine if the partnership has restructured debt.	_____	_____	_____
If so:			
.1) Review for possible discharge of indebtedness income.	_____	_____	_____
.a) Determine if there has been a "material modification" (Reg. § 1.1001-1(a)) of the old debt which would constitute a taxable exchange of old debt for new debt. (See also, <u>Cottage Savings Ass'n v. Commissioner</u> , 111 S. Ct. 1503 (1991) and new final Reg. § 1.1001-3).	_____	_____	_____
.b) If there has been a "material modification," review the Original Issue Discount (OID) rules to calculate possible discharge of indebtedness income. Compare the issue price of the old debt to that of the new debt (after taking into account any adjustment to principal (if needed) due to the new debt's failure to meet the Applicable Federal Rate (AFR) for interest). Note regulations under § 1274.	_____	_____	_____
.2) If the partnership has discharge of indebtedness income, consider the possible exceptions to inclusion in income including:	_____	_____	_____
.a) § 108(a). Note that these tests are made at the partner level, not at the partnership level. (§ 108(d)(6)).			
.i) If the exclusion is applicable consider the tax attribute reduction rules in § 108(b) and providing partners with information to complete Form 982.	_____	_____	_____
.ii) Consider advising the partners of an ability to make a § 1017 election to reduce the basis of assets held by the partners. Note that this could require a stepdown in the depreciable assets of the partnership. (Form 982).	_____	_____	_____
.iii) Note that the qualified real property business indebtedness exception does not apply to C corporations (RRA '93).	_____	_____	_____
.b) Qualified real property business indebtedness (§ 108(c)).	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.c) Purchase money debt. (§ 108(e)(5)). Note that the IRS has waived the bankruptcy or insolvency restrictions on the use of § 108(e)(5) by partnerships (Rev. Proc. 92-92).	_____	_____	_____
.d) If the debt is nonrecourse, consider the possible application of the "freeing of assets" theory.	_____	_____	_____
.3) Determine if the new debt is qualified nonrecourse indebtedness.	_____	_____	_____
130) Determine the reporting requirements if the partnership has any tax exempt partners. (§ 6031(d)).	_____	_____	_____
131) Determine if the partnership is a family partnership. (§ 704(e))	_____	_____	_____
132) Review financial statements and footnotes for relevant information.	_____	_____	_____
133) Determine if the partnership is eligible for tax credits such as:			
.1) Foreign tax credit.	_____	_____	_____
.2) Investment tax credit (rehabilitation and transition, energy and reforestation).	_____	_____	_____
.3) Credit for increasing research activities. (See SBJPA 1996 for extension through May 31, 1997.)	_____	_____	_____
.4) Enhanced oil recovery credit.	_____	_____	_____
.5) Credit for producing fuels from nonconventional source.	_____	_____	_____
.6) Gasoline and special fuels credit.	_____	_____	_____
.7) Low income housing credit.	_____	_____	_____
.8) Disabled access credit.	_____	_____	_____
.9) Qualified electric vehicle credit (Form 8834).	_____	_____	_____
.10) Renewable electricity production credit (Form 8835).	_____	_____	_____
.11) Credit for employer social security taxes paid on certain employee cash tips (Form 8846).	_____	_____	_____
.12) Credit related to wage and health insurance costs for qualified Indian employees.	_____	_____	_____
.13) Credit for contributions to certain community development corporations (Form 8847).	_____	_____	_____
.14) Credit for alcohol used as a fuel.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.15) Empowerment zone employment credit (Form 8844).	_____	_____	_____
.16) Work Opportunity Credit for eligible employees who begin work after September 30, 1996 (SBJPA 1996).	_____	_____	_____
.17) Credit for qualified clinical testing expenses (Orphan Drug Credit) paid or incurred after June 30, 1996 and associated carrybacks and carryovers (SBJPA 1996).	_____	_____	_____
134) Inquire if foreign financial accounts exist (see Form TD F 90-22.1).	_____	_____	_____
135) Consider filing Form 8821 or 2848.	_____	_____	_____
200) INCOME			
201) Compare sources and amounts of portfolio income with prior year.	_____	_____	_____
202) Determine that only trade or business (e.g., not portfolio or rental) income is shown on Page 1 of Form 1065. Report rental real estate activities on Form 8825.	_____	_____	_____
203) Determine that installment sales are reported properly.	_____	_____	_____
.1) Consider related party rules.	_____	_____	_____
.2) Determine that the full amount of depreciation recapture is reported in the year of sale whether or not a payment was received in that year.	_____	_____	_____
.3) Review for adequate stated interest on debt instruments received in connection with the sale. Determine whether original issue discount or unstated interest rules require restatement of note interest and principal.	_____	_____	_____
.4) If the partnership is a "dealer" with respect to the related property:			
.a) Determine that the installment method is <u>not</u> used to report post December 31, 1987 sales of dealer property. (Exceptions—farm property, certain timeshare rights and residential lots if proper election is made.)	_____	_____	_____
.b) Determine that the interest owed as a result of an election (a) above is properly reported. Note that the interest calculation is done at the partner level.	_____	_____	_____
.5) Consider special rules for installment reporting by certain non-dealers of real (post 1986 sales) or personal property (post-1988 sales) where the sales price exceeds \$150,000 (§ 453A). (Does not apply to certain farm property.)	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.a) Compute the interest charge imposed on outstanding tax deferred installment obligations if the face amount of these obligations that arose during, and are still outstanding at the close of, the tax year exceeds \$5 million. Note that the \$5 million threshold test and interest calculation are done at the partner level.	_____	_____	_____
.b) Determine that the proper amount is treated as a collection on any pledged installment obligation.	_____	_____	_____
.6) Consider election out of installment method.	_____	_____	_____
.7) Determine if an event has occurred requiring accelerated recognition of the remaining unreported gain (e.g., resale rule for related parties, cancellation of the installment obligation, disposition of the installment obligation).	_____	_____	_____
204) Deferred income and expenses:			
.1) Include in gross income, as appropriate, income deferred for books in the current year.	_____	_____	_____
.2) Exclude from gross income, as appropriate, income for books in the current year that was taken into income for tax in a prior year.	_____	_____	_____
.3) Determine deductibility of prepaid expenses.	_____	_____	_____
205) For disposed properties:			
.1) Reconcile to depreciation schedule.	_____	_____	_____
.2) Determine holding period and federal, state, AMT and ACE (if there are any corporate partners) tax bases of property sold.	_____	_____	_____
.3) Determine that related gains and losses are properly characterized:			
.a) Ordinary vs. capital vs. § 1231.	_____	_____	_____
.b) Long term or short term.	_____	_____	_____
.4) Consider the provisions related to:			
.a) Nonrecognition of gain or loss (Form 8824).	_____	_____	_____
.b) The rules for like kind exchanges with related parties (Form 8824).	_____	_____	_____
.c) Recapture of depreciation (including § 291 depreciation) and/or tax credits, or reduction of credit carry forward.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.d) Allocation of built-in gain/loss (§ 704(c)). (Note new final Reg. § 1.704-4.)	_____	_____	_____
.e) New rules for involuntary conversions of post-1994 Presidentially-declared disasters (SBJPA 1996).	_____	_____	_____
206) Determine that sales of securities settled after year end, with a trade date within current year, are reported this year. Note special rules for "short sales" in § 1233.	_____	_____	_____
207) Determine if there were wash sales.	_____	_____	_____
208) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
209) Determine if there were sales or exchanges during the year between the partnership and a partner, or a related party to a partner to ensure compliance with §§ 267 and 707.	_____	_____	_____
210) Compare Forms 1099 received for proper inclusion in sales, interest income, dividends, etc.	_____	_____	_____
211) For leased property, calculate the appropriate income inclusion amount to be reported (see Vehicle Related Guides).	_____	_____	_____
212) Determine if securities held by the partnership became worthless during the year.	_____	_____	_____
213) Consider the mark to market rules for "dealers in securities." Warning: the definition of "dealers in securities" contained in § 475 is not limited to Wall Street brokerage firms. The expansive definition includes many taxpayers involved in lending transactions and various seller financed activities.	_____	_____	_____
.1) Determine that § 475 assets are adjusted to fair market value at the end of the year.	_____	_____	_____
.2) Determine the § 481 adjustment.	_____	_____	_____
.3) Amortize the § 481 adjustment over 5 years (15 years for certain floor specialists and market makers) beginning with the year of change.	_____	_____	_____
.4) Determine if exempt securities were timely identified in taxpayer books and records.	_____	_____	_____
.5) Consider loss limitations for securities not properly identified.	_____	_____	_____
214) Inquire whether the taxpayer engaged in bartering transactions.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

DONE N/A COMMENTS OR
EXPLANATION

300) DEDUCTIONS

301) Review the taxpayer's vacation pay accrual policy to determine if a deduction is allowable on the accrual basis (vested at year end and paid within 2½ months after year end).

302) Consider applicability of the uniform capitalization rules which apply to resellers with annual gross receipts in excess of \$10 million and all producers of property. (Note final regulations related to general rules (§ 1.263A-1), producers (§ 1.263A-2) and resellers (§ 1.263A-3)).

.1) Determine that all costs are included.

.2) Consider interest capitalization rules for debt incurred to produce property.

.3) If the beginning inventory is revalued:

a) Ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting (§ 481).

b) Ascertain § 481 forward spread period (not to exceed four years).

c) Determine that Form 3115 is attached to the tax return for the year of change.

d) Consider electing "simplified" methods.

.4) For farmers and ranchers consider:

a) One-time election out of uniform capitalization rules if election was not required in a prior year.

b) The exemption for expenses incurred in the production of animals.

.5) Review the definition of "produce" (Reg. § 1.263A-2(a)(1)(i)).

303) Long-Term Contracts

.1) Determine if the taxpayer is subject to the long-term contract reporting rules requiring that the percentage of completion method, instead of the completed contract method, be used to determine taxable income. Note exceptions for certain qualifying construction contracts and most contracts for the manufacture of property.

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) In determining whether contracts of the taxpayer are subject to the percentage of completion method of reporting, consider:			
.a) Related party rules.	_____	_____	_____
.b) Contract aggregation rules.	_____	_____	_____
.3) Determine that the percentage of completion is calculated based on costs incurred, not work performed.	_____	_____	_____
.4) Determine that all required costs have been allocated to the contracts. Note the expanded requirement to capitalize costs similar to the uniform capitalization rules.	_____	_____	_____
.5) Consider electing the simplified method of allocating costs, whereby fewer costs are taken into account, to determine the degree of contract completion.	_____	_____	_____
.6) Consider electing the modified percentage of completion method, whereby the recognition of income and accounting for costs is deferred until the first tax year in which at least 10% of the estimated total contract costs have been incurred as of the end of that year. Note that this election is not available if the simplified method above has been elected.	_____	_____	_____
.7) Upon completion of a contract, determine that the "look-back rule" has been applied to compare actual contract price and costs to previously used estimates and pay/claim interest on the related changes in prior years taxes on Form 8697. Note that certain small contracts are not subject to the "look-back rule," and that the "simplified" look back method is required for many partnerships.	_____	_____	_____
304) For charitable contributions:			
.1) Inquire if all contributions are to qualified charitable organizations.	_____	_____	_____
.2) Consider the limitation related to contributions of appreciated ordinary income property.	_____	_____	_____
.3) Consider the deduction for more than cost of appreciated capital gains property.	_____	_____	_____
.4) Inquire if adequate contemporaneous documentation was obtained for charitable contributions of \$250 or more.	_____	_____	_____
.5) Determine if Form 8283 is required for non-cash gifts.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
305) Determine that all guaranteed payments to partners for services or use of capital, determined without regard to income, have been deducted in computing ordinary income, or have been capitalized as required.	_____	_____	_____
306) Inquire whether the partnership can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel, conventions. Consider optional per diem method.	_____	_____	_____
307) Determine the deductibility of club dues. (§ 274(a)(3))	_____	_____	_____
308) Determine that certain lobbying expenses are not deducted. (Note exceptions).	_____	_____	_____
309) Inquire if dues include nondeductible lobbying expenses.	_____	_____	_____
310) Limit meals and entertainment to allowable percentage. Consider exceptions. Report the portion disallowed on Schedule K-1 so that each partner can correctly determine their basis in the partnership.	_____	_____	_____
311) Determine that proper allocations have been made by type (trade or business, investment, passive activity, tax exempt expenditures, etc.).	_____	_____	_____
312) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
313) Other interest considerations:			
.1) Treat amortizable bond premiums (for bonds acquired after 1987) as an offset to interest income. (Note election under § 171(c)).	_____	_____	_____
.2) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on beneficial owners and key employees to the extent that the total of such loans exceeds \$50,000. (Note phaseout rules under HIPAA 1996.)	_____	_____	_____
.3) Determine if there is an allowable interest deduction related to deferred compensation agreements.	_____	_____	_____
314) Determine that retirement plan contributions have been calculated using the eligible compensation limit per RRA '93 and obtain a listing of dates and amounts paid.	_____	_____	_____
315) If taxpayer maintains a profit sharing plan and has not contributed the maximum contribution for each taxable year beginning prior to 1987, calculate the unfunded contribution carryover amount.	_____	_____	_____
316) Determine that the partnership has not deducted interest or expenses accrued to a partner or a related party unless it is includible in the income of the partner or related party. (§ 267).	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
317) Determine that expenses (including interest) allocable to portfolio income have not been deducted on Page 1 Form 1065. They should be reported on Schedule K.	_____	_____	_____
318) If a partner has received an interest in exchange for services rendered, determine if the partnership has properly accounted for the exchange. (Rev. Proc. 93-27).	_____	_____	_____
319) Determine that the specific writeoff method is used for bad debts.	_____	_____	_____
320) Review partially worthless debts for write-off under Temp. Reg. § 1.166-3T.	_____	_____	_____
321) Consider option to deduct current year qualifying disaster losses on the appropriate preceding year tax return.	_____	_____	_____
322) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
323) Determine if deductions should be reduced by various credits claimed.	_____	_____	_____
324) Determine proper treatment of environmental clean-up expenses.	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) For assets placed in service during the current year:			
.1) Consider § 179 election to expense qualifying assets.	_____	_____	_____
.2) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property placed in service after June 30, 1993.	_____	_____	_____
.3) Determine the depreciable basis of each asset.	_____	_____	_____
.4) Determine the property class, recovery period and depreciation method for each asset. Note changes in recovery periods for certain non-residential real property acquisitions after May 13, 1993. (Rev. Procs. 87-56, 88-22 and RRA '93).	_____	_____	_____
.5) Determine the applicable convention (half-year, mid-quarter or mid-month).	_____	_____	_____
.6) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period. (RRA '93).	_____	_____	_____
.7) Consider 36-month depreciation rules for software.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.8) Consider reduced depreciable lives for real estate improvements and special use structure.	_____	_____	_____
.9) Consider electing the Alternative Depreciation System (straight line over an ADS recovery period) for qualifying General Depreciation System property.	_____	_____	_____
.10) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.	_____	_____	_____
.11) If property is leased to a tax exempt entity, consider the possible need to use the ADS.	_____	_____	_____
.12) Consider depreciation limitations for IDB financed property, and certified historic structures for which a tax credit was taken.	_____	_____	_____
.13) If a short year, determine that Rev. Proc. 89-15 is followed.	_____	_____	_____
.14) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2 (d)(3).	_____	_____	_____
.15) Determine if interest is payable under look-back method where income forecast depreciation method is used (SBJPA 1996).	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods. See RRA '93.	_____	_____	_____
403) Consider the provisions of Rev. Proc. 96-31 to rectify prior year claims of less than allowable depreciation or amortization.	_____	_____	_____
404) Determine if leased property/equipment should be capitalized.	_____	_____	_____
405) Consider anti-churning rules.	_____	_____	_____
406) For listed property (e.g., cellular phones, autos, computers, airplanes, boats):			
.1) For autos, consider the maximum allowable under the luxury auto rules.	_____	_____	_____
.2) For autos, determine limitation if the business usage is 50% or less.	_____	_____	_____
.3) Determine limitations for all other mixed-use property, if the business usage is 50% or less.	_____	_____	_____
.4) Inquire if the taxpayer has kept the required records indicating the business and personal use of property.	_____	_____	_____
5) Determine recapture if the business usage is 50% or less.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
407) Form 4562 (if required):			
.1) Reconcile depreciation expense to supporting schedules.	_____	_____	_____
.2) Complete questions regarding personal use of listed property.	_____	_____	_____
.3) If the costs were incurred during the current year, determine that amortizable items are separately stated and the proper Code section cited.	_____	_____	_____
408) Consider state depreciation, if different.	_____	_____	_____
409) Consider federal and state AMT depreciation.	_____	_____	_____
410) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture.	_____	_____	_____
500) PARTNER DATA - SCHEDULE K-1			
501) Complete the analysis of distributive items at the bottom of Schedule K.	_____	_____	_____
502) If the partnership has acquired real estate after December 31, 1986, or a partner has acquired an interest in the partnership after December 31, 1986:			
.1) Apply the at risk rules.			
.2) Identify qualified nonrecourse debt allocated to the partners.	_____	_____	_____
503) Consider whether income from a pre-1987 installment sale should be considered passive income.	_____	_____	_____
504) Verify that the beginning and ending total partners' capital figures on Schedule L agree with the reconciliation of partners' capital accounts—Schedule M-2. If the M-2 capital account is a § 704 capital account, and it is different than that used on Schedule L, attach a reconciliation.	_____	_____	_____
505) Complete each partner's reconciliation of capital. Verify that the total agrees to the corresponding line on Schedule M-2 Form 1065.	_____	_____	_____
506) Determine if there has been a transfer of partnership interests during the year and if so, allocate income or loss in accordance with § 706.	_____	_____	_____
507) Determine the allocation of the partnership's recourse, nonrecourse and qualified nonrecourse liabilities and enter separately on each partner's Schedule K-1. Note that § 752 regulations may require debt to be allocated other than in accordance with the profit or loss percentages.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
508) Ensure that the partnership and K-1s report results on an activity by activity basis.	_____	_____	_____
509) Distribute each item on Schedule K among the K-1s in accordance with the provisions of the partnership agreement, or in accordance with § 704(b) if the partnership agreement is silent on § 704(b). (See § 704(b) Tax Practice Guide).	_____	_____	_____
510) Determine that proper reporting and detail have been provided for all items that affect partners' tax liability, such as:			
.1) Ordinary trade or business activities.	_____	_____	_____
.2) Rental activities.	_____	_____	_____
.3) Depreciation of built in gain/loss property (§ 704(c)).	_____	_____	_____
.4) Portfolio income by type (e.g., U.S. government interest income, state or municipal interest income), and related deductions. Consider need to attach required statement under Reg. § 1.265-1(d)(1).	_____	_____	_____
.5) Passive activity data. (See Passive Activity Checklist).	_____	_____	_____
.6) Partners' medical insurance and other fringe benefits. (Rev. Rul. 91-26).	_____	_____	_____
.7) Discharge of indebtedness income.	_____	_____	_____
.8) Self-charged interest. Note Prop. Reg. § 1.469-7 allowing for possible recharacterization of interest income. (See Passive Activity Checklist).	_____	_____	_____
.9) All items that affect partner basis calculations (e.g., nondeductible items).	_____	_____	_____
.10) Guaranteed payments (matching of deduction by partnership and income for partner is required). Note also that group benefits provided to a partner must be treated as guaranteed payments. (Rev. Rul. 91-26).	_____	_____	_____
.11) Credit information.	_____	_____	_____
.12) Interest incurred in the production of property which may have to be capitalized at the partner level.	_____	_____	_____
.13) Casualty loss information.	_____	_____	_____
.14) Charitable contributions, including a copy of Form 8283 when required.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.15) Other passthrough items (e.g., intangible drilling costs, depletion).	_____	_____	_____
511) Determine whether the partnership was required to register as a tax shelter—if so, enter the registration number on each K-1.	_____	_____	_____
512) Determine that Form 8271 and appropriate K-1s are attached if the partnership invested in a registered tax shelter. Note that a copy of Form 8271 must be sent to each individual partner.	_____	_____	_____
513) Segregate all tax preference and alternative minimum tax adjustment items and list on the appropriate lines of Schedules K & K-1. Note the changes to the rules regarding charitable donations of appreciated property (RRA '93).	_____	_____	_____
514) Prepare schedules that reflect information to allow each partner to compute credit recapture.	_____	_____	_____
515) Determine that information relating to interest expense on debt-financed distributions to partners has been provided (Notice 89-35).	_____	_____	_____
516) If the partnership has foreign partners:			
.1) Determine that proper withholding was made.	_____	_____	_____
.2) Determine that proper payment of withholding has been made. Note Forms 8804, 8805 and 8813.	_____	_____	_____
600) OTHER REQUIREMENTS			
601) Compute net earnings from self-employment for applicable partners and enter on Schedule K and appropriate K-1 forms.	_____	_____	_____
602) If a tiered partnership arrangement exists, review §§ 706(c)(2)(B) and 706(d)(3) regarding allocation rules.	_____	_____	_____
603) Consider elections and statements such as:			
.1) Election to amortize organization expense.	_____	_____	_____
.2) Cash vs. accrual method.	_____	_____	_____
.3) Election to amortize business start-up costs.	_____	_____	_____
.4) Method for valuation of inventory.	_____	_____	_____
.5) Research and experimental cost election.	_____	_____	_____
.6) Exception from economic performance for recurring items. Under the final regulations, the election for item(s) incurred for the first time is made by accounting for the item(s) under the recurring	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
method on a timely filed return. Note that this election does not apply to tax shelters (§ 461(i)).	_____	_____	_____
.7) If this is the first year the taxpayer incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception (Rev. Proc. 92-28).	_____	_____	_____
604) Cross reference the following items:			
.1) Schedule L beginning balances to prior year's ending balances.	_____	_____	_____
.2) Schedule M-2 beginning equity accounts to prior year's ending balance.	_____	_____	_____
.3) Detail listings of Schedule L beginning balances to prior year's detail listings of ending balances.	_____	_____	_____
605) Determine that book/tax accounting method differences related to Schedule M-1 are documented in the workpaper files. Consider reporting on Schedule K-1.	_____	_____	_____
606) Determine if any expenditures were incurred that are eligible for the disabled access credit. (See Form 8826). If the taxpayer does not qualify for the credit, or has expenditures in excess of the credit limit, consider making a § 190 election to expense the costs.	_____	_____	_____
607) If the partnership is a party to an "applicable asset acquisition" (transfer of assets that constitute a trade or business or a transfer or distribution to which § 755 applies), determine that applicable reporting requirements regarding allocation of purchase price have been met (Form 8594).	_____	_____	_____
608) If the partnership owns an interest in another partnership:			
.1) Consider § 465 at risk and/or § 704(d) basis rules.	_____	_____	_____
.2) Report appropriate recourse and nonrecourse debt from the other partnership on the partners' K-1s. (Rev. Rul. 77-309).	_____	_____	_____
.3) For a distribution from or a technical termination in the 2nd tier partnership, consider making a § 732(d) election. (Note that a technical termination in the 2nd tier may result in a technical termination of the partnership).	_____	_____	_____
609) Consider § 6662 accuracy-related penalty. If this penalty could result from any income, deduction, loss, or credit item which causes a substantial change in the partner's return and causes the preparer to rise to the level of preparer of the partner's return:			

PARTNERSHIP RETURN OF INCOME CHECKLIST

1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.1) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275 or 8275R).	_____	_____	_____
.2) Determine if the partnership is a tax shelter for purposes of § 6662.	_____	_____	_____
.3) Consider advising the taxpayer, in writing, of the penalty.	_____	_____	_____
610) Consider informing client of requirement to file Form 8300 for certain payments received exceeding \$10,000.	_____	_____	_____
611) If a partnership interest was sold during the year, attach Form 8308 (if required) to the partnership return and send copies to the transferor and transferee. Note that certain contribution-distribution arrangements may constitute a "disguised sale" under the final regulations under § 707(a)(2). Some of these transactions may be required to be reported on Form 8275 or 8275R. (Reg. § 1.707-8).	_____	_____	_____
612) If the partnership sells an interest it owns in another partnership that has § 751(a) assets, attach the required statement under Reg. § 1.751-1(a)(3).	_____	_____	_____
613) If a new partner was admitted, determine if existing partners realized ordinary income due to a reduction in their share of unrealized receivables. Note that if there has been an in-kind distribution, consider gain recognition provisions of the Revenue Reconciliation Act of 1989.	_____	_____	_____
614) Compare net income or loss to projections for reasonableness.	_____	_____	_____
615) Review prior year's return Schedule M-1, for items which may have an effect upon or require similar treatment in the current year.	_____	_____	_____
.1) Reconcile income per books with return (determine nontaxable income not included).	_____	_____	_____
.2) Reconcile expenses per books with return (determine nondeductible items not included).	_____	_____	_____
616) Prepare state and local tax returns (see Nexus Practice Guide).	_____	_____	_____
Consider:			
.1) Each state's modification requirements. (Including ability to deduct expenses allocated to federally tax-exempt income).	_____	_____	_____
.2) State withholding requirements on income allocated to nonresident partners, or distributions made to nonresident partners. Consider notification to the partners that they may be able to use this state tax liability as a credit against their individual state liability.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1996 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Desirability of filing a composite return on behalf of all nonresident partners.	_____	_____	_____
.4) State filing requirements for foreign (out of state) partnerships with resident partners.	_____	_____	_____
.5) Providing proper information to allow partners to prepare the necessary state tax returns.	_____	_____	_____
.6) Compiling apportionment data for multistate taxpayers.	_____	_____	_____
617) Attach extension requests.	_____	_____	_____
618) Determine that related party transactions are reported on all available returns.	_____	_____	_____
619) Information returns:			
.1) Inquire whether the partnership has filed all required information returns (1099 and 1098 series) and whether the value of the personal use of employer property, expense reimbursements under "unaccountable plans" and § 401(k) deferred compensation information has been included in its employees' W-2s.	_____	_____	_____
.2) Inquire if the taxpayer has complied with magnetic media filing requirements for Forms 1099 and W-2.	_____	_____	_____
.3) Inquire if additional items subject to employer FICA, such as § 401(k) deferrals, employer-provided excess group-term life insurance, all cash tips, etc., have been properly reported.	_____	_____	_____
.4) Determine that reimbursement of employee moving expenses are properly reported (RRA '93).	_____	_____	_____
.5) Inquire whether club dues, spousal travel, etc., is treated as compensation and included on employee's W-2.	_____	_____	_____
620) Inquire if employment taxes were timely deposited.	_____	_____	_____
621) Inquire if the required 5500 series forms have been filed for retirement plans covered by this period.	_____	_____	_____
622) Inquire if the employee benefit plans have been reviewed to determine if they are in compliance due to changing partnership circumstances and law changes.	_____	_____	_____
623) Inquire if 5500 series forms have been filed for cafeteria plans and welfare benefit plans (e.g., medical benefit plans, life insurance, disability or death benefit plans that have more than 100 participants).	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST

1996 - FORM 1065

<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
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624) Advise the partnership that any unpaid retirement plan contribution for the year must be made before the due date of the return, including extensions.

625) Note tax planning suggestions.

COMMENTS OR EXPLANATIONS

MINI-CHECKLIST

C CORPORATION INCOME TAX RETURN

1996 - FORM 1120

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
GENERAL INFORMATION					
1. Review prior year returns, workpapers, correspondence and audit results.	<input type="checkbox"/>	<input type="checkbox"/>	2. Consider charitable deduction rules and limitations.	<input type="checkbox"/>	<input type="checkbox"/>
2. Document any changes in corporation's name, address, FYE, business code.	<input type="checkbox"/>	<input type="checkbox"/>	3. Determine deductibility of vacation pay accrual.	<input type="checkbox"/>	<input type="checkbox"/>
3. Consider signed engagement letter.	<input type="checkbox"/>	<input type="checkbox"/>	4. Determine applicability of 2½ month deferred comp rule for nonshareholder employees and independent contractors.	<input type="checkbox"/>	<input type="checkbox"/>
4. Review computer-generated pro forma for accuracy.	<input type="checkbox"/>	<input type="checkbox"/>	5. Inquire if travel and entertainment expenses are substantiated by adequate records.	<input type="checkbox"/>	<input type="checkbox"/>
5. Update carryforward schedules, including effect of prior tax audits.	<input type="checkbox"/>	<input type="checkbox"/>	6. Limit meals and entertainment to allowable percentage.	<input type="checkbox"/>	<input type="checkbox"/>
6. Review methods of accounting.	<input type="checkbox"/>	<input type="checkbox"/>	7. Consider limitations on deductibility of:		
7. Reconcile income and expenses per return with books.	<input type="checkbox"/>	<input type="checkbox"/>	Club dues	<input type="checkbox"/>	<input type="checkbox"/>
8. Consider below-market-rate loan rules.	<input type="checkbox"/>	<input type="checkbox"/>	Lobbying expenses	<input type="checkbox"/>	<input type="checkbox"/>
9. Review financial statements and footnotes for relevant information.	<input type="checkbox"/>	<input type="checkbox"/>	Bad debts	<input type="checkbox"/>	<input type="checkbox"/>
10. Review Board minutes.	<input type="checkbox"/>	<input type="checkbox"/>	Casualty losses	<input type="checkbox"/>	<input type="checkbox"/>
11. Consider filing Form 8821 or 2848.	<input type="checkbox"/>	<input type="checkbox"/>	8. Review amount and timeliness of retirement plan contributions.	<input type="checkbox"/>	<input type="checkbox"/>
			9. Consider limitation on tax attribute utilization if there has been a more than 50% ownership change.	<input type="checkbox"/>	<input type="checkbox"/>
			DEPRECIATION/AMORTIZATION		
INCOME			1. Consider the following:		
1. Determine that dispositions of property are reported properly.	<input type="checkbox"/>	<input type="checkbox"/>	§ 179 election	<input type="checkbox"/>	<input type="checkbox"/>
2. Compute proper dividend received deduction.	<input type="checkbox"/>	<input type="checkbox"/>	Requirements relating to listed property	<input type="checkbox"/>	<input type="checkbox"/>
3. If closely held or PSC, consider any passive loss limitations.	<input type="checkbox"/>	<input type="checkbox"/>	Capitalization of leased property	<input type="checkbox"/>	<input type="checkbox"/>
4. Consider the following:			Methods and lives	<input type="checkbox"/>	<input type="checkbox"/>
Discharge of indebtedness	<input type="checkbox"/>	<input type="checkbox"/>	Amortization of goodwill and other intangibles.	<input type="checkbox"/>	<input type="checkbox"/>
Worthless securities	<input type="checkbox"/>	<input type="checkbox"/>	2. Compute AMT and ACE depreciation.	<input type="checkbox"/>	<input type="checkbox"/>
Deferred income and expenses (SBJPA 1996)	<input type="checkbox"/>	<input type="checkbox"/>	TAX COMPUTATION AND CREDITS		
Ordinary income on market discount bonds and deferral of related interest expense	<input type="checkbox"/>	<input type="checkbox"/>	1. Compute alternative minimum tax (including ACE adjustment).	<input type="checkbox"/>	<input type="checkbox"/>
Installment sales and related interest charge on deferred tax	<input type="checkbox"/>	<input type="checkbox"/>	2. Consider tax credits (SBJPA 1996).	<input type="checkbox"/>	<input type="checkbox"/>
Sales or exchanges between the corporation and shareholder or other related parties	<input type="checkbox"/>	<input type="checkbox"/>	3. Determine if PHC tax is applicable.	<input type="checkbox"/>	<input type="checkbox"/>
At risk rules	<input type="checkbox"/>	<input type="checkbox"/>	4. Consider accumulated earnings tax exposure.		
Like-kind exchanges	<input type="checkbox"/>	<input type="checkbox"/>	5. Determine if 35% PSC tax applies.	<input type="checkbox"/>	<input type="checkbox"/>
DEDUCTIONS			6. Confirm prior year overpayments, estimates and extension payments.	<input type="checkbox"/>	<input type="checkbox"/>
1. Consider uniform capitalization rules.	<input type="checkbox"/>	<input type="checkbox"/>	7. Compute underpayment penalties.	<input type="checkbox"/>	<input type="checkbox"/>
			8. Prepare estimates.	<input type="checkbox"/>	<input type="checkbox"/>

MINI-CHECKLIST
C CORPORATION INCOME TAX RETURN
1996 - FORM 1120

Done N/A

OTHER REQUIREMENTS

- | | | | |
|---|--------------------------|--------------------------|--|
| 1. Determine if NOL, capital loss or credit carryback claim is required. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 2. Consider election to relinquish NOL carryback. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 3. Consider elections and statements such as: | | | |
| Amortize organization expenses | <input type="checkbox"/> | <input type="checkbox"/> | |
| Cash vs. accrual | <input type="checkbox"/> | <input type="checkbox"/> | |
| Amortize business startup costs | <input type="checkbox"/> | <input type="checkbox"/> | |
| Method for valuation of inventory | <input type="checkbox"/> | <input type="checkbox"/> | |
| Research and experimental costs | <input type="checkbox"/> | <input type="checkbox"/> | |
| Exception from economic performance for recurring items (first year only) | <input type="checkbox"/> | <input type="checkbox"/> | |
| Ratable accrual of real property taxes (first year only) | <input type="checkbox"/> | <input type="checkbox"/> | |
| 4. Inquire whether all information reporting returns have been filed. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 5. Consider accuracy-related penalty (§ 6662). | <input type="checkbox"/> | <input type="checkbox"/> | |
| 6. Prepare state and local tax returns. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 7. Attach extension requests. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 8. Inquire if foreign financial accounts exist. | <input type="checkbox"/> | <input type="checkbox"/> | |
| 9. Note tax planning suggestions. | <input type="checkbox"/> | <input type="checkbox"/> | |

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review and update the corporation's name, address, fiscal year, incorporation date, business code, identification number, and IRS and other tax processing centers.	_____	_____	_____
102) Consider signed engagement letter.	_____	_____	_____
103) Review permanent file, prior year returns, memos, workpapers and correspondence files.	_____	_____	_____
104) Review computer-generated pro forma for accuracy.	_____	_____	_____
105) Check for carryover items and update carryforward schedule, including effects of prior tax audits.	_____	_____	_____
106) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
107) Obtain information concerning IRS and state tax audits and/or correspondence.	_____	_____	_____
108) Review for adequate stated interest on all new or modified debt instruments.	_____	_____	_____
109) Review financial statements and footnotes for relevant information.	_____	_____	_____
110) Review Board minutes.	_____	_____	_____
111) Consider filing Form 8821 or 2848.	_____	_____	_____
200) INCOME			
201) Determine that installment sales are properly reported, including related interest charge on deferred tax.	_____	_____	_____
202) Review dispositions of property for holding period and federal, state, AMT and ACE tax bases. Consider non-recognition, gains, losses and recaptures. SBJPA 1996.	_____	_____	_____
203) Consider rules for like-kind and related party exchanges (Form 8824).	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
204) Determine that deferred income and expenses for book purposes are properly reported for tax purposes.	_____	_____	_____
205) Determine taxability of dividends and complete schedule C. Consider 20% ownership rule, including possible reduction in the dividends received deduction under § 246A.	_____	_____	_____
206) Exclude tax exempt income from federal gross income and state and local income as applicable, and determine whether there is interest expense disallowance related to such income.	_____	_____	_____
207) Consider the passive loss limitations for closely held or PSCs. (See Passive Activity Checklist.)	_____	_____	_____
208) Determine if there is discharge of indebtedness income. Consider exclusion and elections under § 108 and Form 982. (See RRA '93.)	_____	_____	_____
209) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
210) Consider mark to market rules for "dealers in securities" (§ 475).	_____	_____	_____
211) Consider appropriate income inclusion amount for leased property. (See Vehicle Related Guides.)	_____	_____	_____
300) DEDUCTIONS			
301) Consider the uniform capitalization rules.	_____	_____	_____
302) Consider charitable contribution rules, limitations and contemporaneous receipt requirements.	_____	_____	_____
303) Identify any nondeductible vacation pay accrual.	_____	_____	_____
304) Inquire whether the corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, gifts, travel and conventions. Consider optional per diem method. Note new \$75 substantiation requirement (Reg. § 1.274-5T(c)(2)(iii)).	_____	_____	_____
305) Limit deduction for meals and entertainment to allowable percentage. Consider exceptions.	_____	_____	_____
306) Officers and stockholders:			
.1) Determine the ownership of officer's life insurance policies and the proper treatment of related expenses.	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Determine limitation on any losses or accruals of expenses during the year between related corporation/shareholder under § 267(a)(1).	_____	_____	_____
.3) If there were any accruals of interest, compensation or other expenses payable to a shareholder or related parties, determine that for tax purposes the deduction is deferred until the year in which it is includable in income of the shareholder.	_____	_____	_____
.4) If the corporation is a PSC with a fiscal year end and § 280H applies, determine the appropriate distribution and deduction amounts.	_____	_____	_____
.5) Consider whether there is a potential unreasonable compensation issue.	_____	_____	_____
307) Consider limitations on deductibility of:			
Bad debts	_____	_____	_____
Casualty losses	_____	_____	_____
Club dues	_____	_____	_____
Lobbying expenses	_____	_____	_____
308) Determine applicability of the 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
309) Determine that retirement plan contributions are within allowable limits and are made timely.	_____	_____	_____
310) Consider economic performance requirement and recurring item exceptions.	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) Consider all depreciation requirements and options including:			
.1) § 179 election.	_____	_____	_____
.2) Methods and lives.	_____	_____	_____
.3) Requirements relating to listed property.	_____	_____	_____
.4) Whether leased property should be capitalized.	_____	_____	_____
.5) Consider 36-month depreciation rules for software.	_____	_____	_____
402) Consider AMT and ACE depreciation.	_____	_____	_____
403) Determine that amortizable items, including goodwill, are written off over the correct periods. (See RRA '93.)	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
500) TAX COMPUTATIONS AND CREDITS			
501) If this is a consolidated tax return:			
.1) Attach Form 851.	_____	_____	_____
.2) Attach Form 1122 (only for consolidated group's first year).	_____	_____	_____
.3) Determine that intercompany eliminations and restorations are calculated correctly.	_____	_____	_____
.4) Attach election to allocate tax liability of group.	_____	_____	_____
502) If member of controlled group, attach apportionment schedule.	_____	_____	_____
503) Compute tax including alternative minimum tax and ACE adjustment.	_____	_____	_____
504) Consider application of environmental tax.	_____	_____	_____
505) Consider tax credits. See SBJPA 1996.	_____	_____	_____
506) Consider limitations on use of NOLs and credits.	_____	_____	_____
507) If corporation is a personal service corporation, calculate tax without benefit of graduated rates.	_____	_____	_____
508) Determine personal holding company status.	_____	_____	_____
509) Determine if accumulated earnings tax exposure is present. Note exceptions.	_____	_____	_____
510) Claim current year estimated tax payments, prior year overpayments applied and extension payments.	_____	_____	_____
511) Consider filing for a quick refund (Form 4466).	_____	_____	_____
512) Prepare Form 2220 for underestimated tax penalty or exception if applicable.	_____	_____	_____
513) Determine need for estimated tax payments.	_____	_____	_____
600) OTHER REQUIREMENTS			
601) If the corporation is a party to an "applicable asset acquisition," determine that the reporting requirements have been met (Form 8594).	_____	_____	_____
602) Attach schedule for carryforward NOL.	_____	_____	_____

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1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
603) If there is a current period NOL, consider the election to forego the carryback.	_____	_____	_____
604) Consider preparing Form 1139 for carrybacks.	_____	_____	_____
605) If there is an NOL generated or utilized in the current year, disclosure is required of any change in ownership.	_____	_____	_____
606) Consider elections such as:			
.1) Amortization of organization expense.	_____	_____	_____
.2) Amortization of business start-up costs.	_____	_____	_____
.3) Ratable accrual of real property taxes (first year only).	_____	_____	_____
.4) Cash vs. accrual.	_____	_____	_____
.5) Method for valuation of inventory.	_____	_____	_____
.6) Research and experimental costs.	_____	_____	_____
.7) Exception from economic performance for recurring items (first year only).	_____	_____	_____
607) Consider applicable reporting requirements for liquidations, reorganizations, and tax-free incorporations.	_____	_____	_____
608) Reconcile net income per books to taxable income per return.	_____	_____	_____
609) Cross reference the following items:			
.1) Schedule L beginning balances to prior year's ending balances.	_____	_____	_____
.2) Schedule M-2 beginning retained earnings to prior year's ending balance.	_____	_____	_____
.3) Carryforward items to carryover schedule/prior year returns.	_____	_____	_____
610) Consider accuracy-related penalty and filing of a disclosure statement. (§ 6662)	_____	_____	_____
611) Consider state tax return issues (see Nexus Guide) such as:			
.1) Tax credits.	_____	_____	_____
.2) Doing business in new states.	_____	_____	_____
.3) Unitary or consolidated filing requirements.	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.4) Allocation of investment income.	_____	_____	_____
.5) Credits for income taxes paid to other states.	_____	_____	_____
612) Attach extension requests.	_____	_____	_____
613) Inquire if employee benefit plans have been reviewed to determine if they are in compliance due to changing corporate circumstances and law changes.	_____	_____	_____
614) Compare taxable income to projections for reasonableness.	_____	_____	_____
615) Determine that related party transactions are properly reported on all available returns.	_____	_____	_____
616) Inquire if information returns (1099 and 1098 series) have been filed.	_____	_____	_____
617) Inquire if employment taxes were timely deposited.	_____	_____	_____
618) Consider whether an "S" election should be made.	_____	_____	_____
619) Note tax planning suggestions.	_____	_____	_____

COMMENTS OR EXPLANATIONS

C CORPORATION INCOME TAX RETURN CHECKLIST 1996 - FORM 1120

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review the corporation's name, address, fiscal year, incorporation date, business code, identification number, and IRS and other tax processing centers. Note changes.	_____	_____	_____
102) Consider signed engagement letter.	_____	_____	_____
103) Review permanent file, prior year returns, memos, workpapers and correspondence files.	_____	_____	_____
104) Review computer-generated pro forma for accuracy.	_____	_____	_____
105) If the corporation has been examined by the IRS, state or local taxing authorities:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine that the agent's adjustments have been entered on the corporation's records and appropriate carryforward workpapers.	_____	_____	_____
.3) If the agent's adjustments affect income tax returns of years other than those audited, or the corresponding federal or state returns for the same year, consider filing amended returns.	_____	_____	_____
106) Review and update schedules for federal and state carryover items (regular and AMT) such as:			
.1) Prior year overpayment(s) credited to current year estimate.	_____	_____	_____
.2) Prior year deferred deductions.	_____	_____	_____
.3) Net operating loss.	_____	_____	_____
(a) Consider limitations due to change in ownership rules (§ 382).	_____	_____	_____
(b) Consider limitations due to acquisition under § 384.	_____	_____	_____
(c) Consider SRLY limitation for consolidated returns.	_____	_____	_____
.4) Capital loss.	_____	_____	_____
.5) Investment credit.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.6) AMT credit.	_____	_____	_____
.7) Other credits.	_____	_____	_____
.8) Charitable contributions.	_____	_____	_____
.9) Installment sales.	_____	_____	_____
.10) Passive losses/credits.	_____	_____	_____
.11) Suspended losses/credits due to at-risk limitations.	_____	_____	_____
.12) Partnership basis.	_____	_____	_____
.13) Change of accounting method adjustments (§ 481).	_____	_____	_____
.14) § 179 amounts.	_____	_____	_____
.15) For consolidated returns:			
(a) Stock bases.	_____	_____	_____
(b) Excess loss accounts.	_____	_____	_____
(c) Deferred intercompany transactions.	_____	_____	_____
107) Inquire whether the taxpayer has made or received any below-market-rate loans. Determine imputed interest consequences and existence of properly executed note.	_____	_____	_____
108) Review for adequate stated interest on all new or modified debt instruments. Determine whether original issue discount or unstated interest rules require restatement of note interest and principal. Note new regulations under § 1274.	_____	_____	_____
109) Review for proper reporting of interest recognition in accordance with Reg. §§ 1.483-4 and 1.1274-5 for debt instruments providing contingent payments.	_____	_____	_____
110) Consider whether or not corporate capitalization is realistic in light of the debt/equity rules.	_____	_____	_____
111) Document any changes in stock ownership during the tax year.	_____	_____	_____
112) Determine officers' compensation and complete Schedule E, if required.	_____	_____	_____
113) Determine if the corporation is a personal service corporation (PSC) and is required to file on a calendar-year basis. If the PSC has made a § 444 election to have an allowable fiscal tax year, determine that Form 8716			

C CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
has been timely filed. Note that a copy of Form 8716 must be attached to Form 1120 for the first tax year for which the election is made.	_____	_____	_____
114) If the corporation is on the cash basis, determine if the accrual basis is required (generally, gross receipts in excess of \$5 million).	_____	_____	_____
115) Determine if accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
116) Consider economic performance requirement and recurring item exceptions.	_____	_____	_____
117) Review financial statements and footnotes for relevant information.	_____	_____	_____
118) Review board minutes.	_____	_____	_____
119) Consider filing Form 8821 or 2848.	_____	_____	_____
200) INCOME			
201) Determine that installment sales are reported properly.			
.1) Consider related party rules.	_____	_____	_____
.2) Determine that the full amount of depreciation recapture is reported in the year of sale whether or not payment was received in that year.	_____	_____	_____
.3) Review for adequate stated interest on debt instruments received in connection with the sale. Determine whether original issue discount or unstated interest rules require restatement of note interest and principal.	_____	_____	_____
.4) If the corporation is a "dealer" with respect to the related property:			
(a) Determine that the installment method is <u>not</u> used to report post-1987 sales of dealer property (exceptions—farm property, certain timeshare rights and residential lots if proper election is made).	_____	_____	_____
(b) Determine that the interest owed as a result of an election in (a) above is properly reported.	_____	_____	_____
.5) Consider special rules for installment reporting by certain non-dealers of real (post-1986 sales) or personal property (post-1988 sales) where the sales price exceeds \$150,000 (§ 453A) (does not apply to certain farm property).	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(a) Compute the interest charge imposed on outstanding tax deferred installment obligations if the face amount of these obligations that arose during, and are still outstanding at the close of, the tax year exceeds \$5 million.	_____	_____	_____
(b) Determine that the proper amount is treated as a collection on any pledged installment obligation.	_____	_____	_____
.6) Consider election out of installment method.	_____	_____	_____
.7) Determine if an event has occurred requiring accelerated recognition of the remaining unreported gain (e.g., resale rule for related parties, cancellation of the installment obligation, disposition of the installment obligation).	_____	_____	_____
202) For disposed property:			
.1) Reconcile to depreciation schedule.	_____	_____	_____
.2) Determine holding period and federal, state, AMT and ACE tax bases.	_____	_____	_____
.3) Determine that gains and losses are properly characterized:	_____	_____	_____
(a) Ordinary, § 1231, capital	_____	_____	_____
(b) Long term, short term	_____	_____	_____
.4) If there are § 1231 gains, determine the amount subject to ordinary income treatment as a result of five year recapture rule for prior net § 1231 losses.	_____	_____	_____
.5) Consider the provisions relating to:			
(a) Non-recognition of gain or loss (Form 8824). See new rules for involuntary conversion of post-1994 Presidentially declared disasters (SBJPA 1996).	_____	_____	_____
(b) Rules for like-kind and related party exchanges (Form 8824).	_____	_____	_____
(c) Recapture of depreciation (including § 291 recapture) and/or tax credits, or reduction of credit carryforwards.	_____	_____	_____
203) Deferred income and expenses:			
.1) Include in gross income, as appropriate, income deferred for books in the current year.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Exclude from gross income, as appropriate, income for books in the current year that was taken into income for tax in a prior year.	_____	_____	_____
.3) Consider whether there are any advance payments for goods that can be determined under Reg. § 1.481-5. Note the information schedule requirements.	_____	_____	_____
.4) Determine deductibility of prepaid expenses.	_____	_____	_____
204) Review application of the wash sale rules.	_____	_____	_____
205) Determine that sales of securities settled after year end, with a trade date within current year, are reported this year. Note special rules for short sales in § 1233.	_____	_____	_____
206) Exclude interest on state or local obligations from federal taxable income; however, enter amounts on Form 1120, Page 3, Schedule K, Question 12.	_____	_____	_____
207) Exclude interest on exempt state, local and federal obligations from state and local taxable income, if applicable.	_____	_____	_____
208) Determine taxability of dividends and complete Schedule C.	_____	_____	_____
.1) Consider 20% ownership rule.	_____	_____	_____
.2) Determine that stock was held more than 45 days.	_____	_____	_____
.3) Consider reduction in dividends received deduction where underlying stock is debt financed (§ 246A).	_____	_____	_____
209) For passive activities see Passive Activity Checklist and consider:	_____	_____	_____
.1) Passive activity elections.	_____	_____	_____
.2) If any pass-through entity in which the corporation has an interest has separately reported activities.	_____	_____	_____
210) Determine if either of the following apply. If so, the corporation's losses from an activity may be limited (See Passive Activity Checklist and Form 8810):			
.1) During the last half of the year, there are five or fewer individuals who own directly or indirectly more than 50% of the stock and shareholders owning (in the aggregate) more than 50% are NOT materially participating in the activity.	_____	_____	_____
.2) The corporation is a personal service corporation—even if shareholders are materially participating in the activity.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
211) Determine if an M-1 adjustment is required for any change in the cash surrender value of key person life insurance.	_____	_____	_____
212) Determine whether income from services does not have to be accrued if, based on experience, such amounts will not be collected (§ 448(d)(5)).	_____	_____	_____
213) For leased property, calculate the appropriate income inclusion amount to be reported by referring to the IRS tables (See Vehicle Related Guides).	_____	_____	_____
214) Determine if there is discharge of indebtedness income. (See RRA '93).	_____	_____	_____
.1) Consider exclusion and elections under § 108.	_____	_____	_____
.2) Consider Form 982.	_____	_____	_____
215) Determine if there have been any distributions of appreciated property to shareholders requiring recognition of gain by the corporation (§ 311).	_____	_____	_____
216) Determine applicability of Reg. § 1.1502-20 disallowing loss on disposition of stock of consolidated subsidiary.	_____	_____	_____
217) Determine if securities held by the corporation became worthless during the year.	_____	_____	_____
218) If worthless securities were stock in an affiliated corporation, the deduction may be ordinary under § 165(g)(3) subject to:			
.1) loss disallowance rules of Reg. § 1.1502-20 (See 216 above) and	_____	_____	_____
.2) for consolidated return years beginning on or after January 1, 1995, the worthless stock deduction is subject to deferral under Reg. § 1.1502-80(c).	_____	_____	_____
219) Inquire if the taxpayer engaged in bartering transactions.	_____	_____	_____
220) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
221) Determine whether interest income on ESOP loans is excludable (SBJPA 1996).	_____	_____	_____
222) Consider the mark to market rules for "dealers in securities." Warning: the definition of "dealers in securities" contained in § 475 is not limited to Wall Street brokerage firms. The expansive definition includes many taxpayers involved in lending transactions and various seller financed activities.	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.1) Determine that § 475 assets are adjusted to fair market value at the end of the year.	_____	_____	_____
.2) Determine the § 481 adjustment.	_____	_____	_____
.3) Amortize the § 481 adjustment over 5 years (15 years for certain floor specialists and market makers) beginning with the year of change.	_____	_____	_____
.4) Determine if exempt securities were timely identified in taxpayer books and records.	_____	_____	_____
.5) Consider loss limitations for securities not properly identified.	_____	_____	_____
300) DEDUCTIONS			
301) Review the taxpayer's vacation pay policy to determine if a deduction is allowable on the accrual basis (vested at year end and taken within 2½ months after year end).	_____	_____	_____
302) Consider applicability of uniform capitalization rules to resellers with annual gross receipts in excess of \$10 million and all producers of property. (Note final regulations related to general rules (§ 1.263A-1), producers (§ 1.263A-2) and resellers (§ 1.263A-3)).	_____	_____	_____
.1) Determine that all costs are included.	_____	_____	_____
.2) Consider interest capitalization rules for debt incurred to produce property.	_____	_____	_____
.3) If the beginning inventory is revalued:			
(a) Ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting (§ 481).	_____	_____	_____
(b) Ascertain § 481 forward spread period (not to exceed four years).	_____	_____	_____
(c) Determine that Form 3115 is attached to the tax return for the year of change.	_____	_____	_____
(d) Consider electing "simplified" methods.	_____	_____	_____
.4) For farmers and ranchers consider:			
(a) One-time election out of uniform capitalization rules if election was not required in a prior year.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST

1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(b) The exemption for expenses incurred in the production of animals.	_____	_____	_____
.5) Review the definition of "produce" (Reg. § 1.263A-2(a)(1)(i)).	_____	_____	_____
303) Long-Term Contracts			
.1) Determine if the taxpayer is subject to the long-term contract reporting rules requiring that the percentage of completion method, instead of the completed contract method, be used to determine taxable income. Note exceptions for certain qualifying construction contracts and most contracts for the manufacture of property.	_____	_____	_____
.2) In determining whether contracts of the taxpayer are subject to the percentage of completion method of reporting, consider:			
(a) Related party rules.	_____	_____	_____
(b) Contract aggregation rules.	_____	_____	_____
.3) Determine that the percentage of completion is calculated based on costs incurred, not work performed.	_____	_____	_____
.4) Determine that all required costs have been allocated to the contracts. Note the expanded requirement to capitalize costs similar to the uniform capitalization rules.	_____	_____	_____
.5) Consider electing the simplified method of allocating costs, whereby fewer costs are taken into account, to determine the degree of contract completion.	_____	_____	_____
.6) Consider electing the modified percentage-of-completion method, where-by the recognition of income and accounting for costs is deferred until the first tax year in which at least 10% of the estimated total contract costs have been incurred as of the end of that year. Note that this election is not available if the simplified method above has been elected.	_____	_____	_____
.7) Upon completion of a contract, determine that the "look-back rule" has been applied to compare actual contract price and costs to previously used estimates and pay/claim interest on the related changes in prior years taxes on Form 8697. Note that certain small contracts are not subject to the "look-back rule."	_____	_____	_____
304) For charitable contributions:			
.1) Inquire if all contributions are to qualified charitable organizations.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Determine that certain contributions to organizations conducting lobbying activities related to the taxpayer's trade or business are not deducted.	_____	_____	_____
.3) Consider the contribution deduction limitation and record any carryover amounts.	_____	_____	_____
.4) If a carryforward deduction is claimed, attach a supporting schedule to the return.	_____	_____	_____
.5) Inquire if adequate contemporaneous documentation was obtained for contributions made of \$250 or more.	_____	_____	_____
.6) Consider the limitation related to contributions of appreciated ordinary income property.	_____	_____	_____
.7) Consider increased deduction for contributions of inventory.	_____	_____	_____
.8) Consider that costs of contributed property held for sale in the course of a trade or business that are incurred in the year of contribution are to be treated as part of cost of goods sold for such year, not a charitable contribution subject to the related rules and limitations. See Reg. § 1.170A-4A.	_____	_____	_____
.9) Consider the deduction for more than cost of appreciated capital gains property.	_____	_____	_____
.10) Ascertain that minutes document authorization before year end for accrued charitable contributions, and that contributions are paid by the 15th day of the 3rd month after the end of the tax year. An election statement and a certified copy of the minutes must be attached to the return.	_____	_____	_____
.11) Determine if Form 8283 is required for non-cash charitable donations.	_____	_____	_____
305) Inquire whether the corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions. Consider optional per diem method and limitation on deductibility of certain non-employee travel expenses.	_____	_____	_____
306) Determine if professional fees and/or employee salaries require capitalization.	_____	_____	_____
307) Limit deductions for meals and entertainment to allowable percentage. Consider exceptions.	_____	_____	_____
308) Determine the deductibility of club dues. (§ 274(a)(3)).	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
309) Determine that certain lobbying expenses are not deducted (note exceptions).	_____	_____	_____
310) Inquire if dues include non-deductible lobbying expenses.	_____	_____	_____
311) Officers and shareholders:			
.1) Determine the ownership of officers' life insurance policies and the proper treatment of related expenses.	_____	_____	_____
.2) Determine deductibility of disability insurance premiums.	_____	_____	_____
.3) Determine limitation on losses during the year between related corporations/shareholders or other related parties under § 267(a)(1).	_____	_____	_____
.4) If there were any accruals of interest, compensation or other expenses payable to a cash basis payee who owns directly or indirectly more than 50% of the corporation's stock, determine that for tax purposes the deduction is deferred until the year in which it is includible in the income of the shareholder.	_____	_____	_____
.5) If the corporation is a PSC with a fiscal year end and § 280H (regarding allowable applicable amounts) applies, determine the amount including carryover to be deducted in the current year. Complete Schedule H (Form 1120) to figure the required minimum distribution and the maximum deductible amount—attach to the return if the minimum distribution requirements are not met.	_____	_____	_____
.6) Consider whether there is a potential unreasonable compensation issue.	_____	_____	_____
312) Consider limitation of deduction for executive compensation in excess of \$1 million unless qualifying performance-based program was in effect.	_____	_____	_____
313) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
314) Determine if there are non-deductible payments made under golden parachute agreements.	_____	_____	_____
315) Determine if compensation deductions are allowable with respect to current or past transfers of property that are no longer subject to a substantial risk of forfeiture (§ 83), or with respect to disqualifying dispositions of stock under Incentive Stock Options (§ 422), or Employee Stock Purchase Plans (§ 423).	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
316) Determine that the specific write-off method is used for bad debts.	_____	_____	_____
317) Review partially worthless debt for write-off under Reg. § 1.166-3T.	_____	_____	_____
318) Consider limitation of Bad Debt Reserve Method for Thrifts (SBJPA 1996).	_____	_____	_____
319) Review increases or decreases in reserve accounts for potential M-1 items.	_____	_____	_____
320) If taxpayer maintains a profit sharing or stock bonus plan and has not contributed the maximum contribution for each taxable year beginning prior to 1987, calculate the unfunded contribution carryover amount.	_____	_____	_____
321) Determine applicability of rules with respect to post-October 2, 1989 transfers of franchises, trademarks and trade names.	_____	_____	_____
322) Determine if inventory write-down for book purposes should be adjusted for tax purposes.	_____	_____	_____
323) Determine proper tax treatment for long-term lease agreements (as lessor or lessee) where the lease provides for deferred payments or increasing payments (§ 467).	_____	_____	_____
324) Review penalties paid or accrued for deductibility.	_____	_____	_____
325) Interest considerations:			
.1) Treat amortizable bond premiums (for bonds acquired after 1987) as an offset to interest income.	_____	_____	_____
.2) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on beneficial owners and key employees to the extent that the total of such loans exceeds \$50,000. Note phaseout rules under HIPAA 1996.	_____	_____	_____
.3) Determine that proper allocation of interest expense has been made if the proceeds of a loan were used for more than one purpose.	_____	_____	_____
.4) Determine that the proper allocations have been made by type (trade or business, investment, passive activity, tax-exempt expenditures, etc.)	_____	_____	_____
.5) Determine if there is an allowable interest deduction related to deferred compensation agreements.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.6) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
.7) Capitalize interest and carrying charges on straddles (§ 263(g)).	_____	_____	_____
326) Consider limitations on deducting expenses related to federally tax exempt income. Note that these expenses may be deductible at the state level if the related income is state taxable.	_____	_____	_____
327) Consider option to deduct current year qualifying disaster losses on preceding year tax return by filing an amended return.	_____	_____	_____
328) Determine that retirement plan contributions have been calculated using the eligible compensation limit per RRA '93 and obtain a listing of the amounts and payments.	_____	_____	_____
329) Determine if deductions should be reduced by credits claimed.	_____	_____	_____
330) Determine proper treatment of environmental clean-up expenses.	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) For assets placed in service during the current year:			
.1) Consider § 179 election to expense qualifying assets.	_____	_____	_____
.2) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property placed in service after June 30, 1993.	_____	_____	_____
.3) Determine the depreciable basis of each asset.	_____	_____	_____
.4) Determine the property class, recovery period and depreciation method for each asset. Note changes in recovery periods for certain non-residential real property acquisitions after May 13, 1993. (Rev. Procs. 87-56, 88-22 and RRA '93).	_____	_____	_____
.5) Determine the applicable convention (half-year, mid-quarter or mid-month).	_____	_____	_____
.6) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period. (RRA '93).	_____	_____	_____
.7) Consider 36-month depreciation rules for software.	_____	_____	_____
.8) Consider reduced depreciable lives for real estate improvements and special use structure.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST

1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.9) Consider electing the Alternative Depreciation System (straight line over an ADS recovery period) for qualifying General Depreciation System property.	_____	_____	_____
.10) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.	_____	_____	_____
.11) If property is leased to a tax exempt entity, consider the possible need to use the ADS.	_____	_____	_____
.12) Consider depreciation limitations for IDB financed property, and certified historic structures for which a tax credit was taken.	_____	_____	_____
.13) If a short year, determine that Rev. Proc. 89-15 is followed.	_____	_____	_____
.14) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2(d)(3).	_____	_____	_____
.15) Determine if interest is payable under look-back method where income forecast method is used (SBJPA 1996).	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods. (See RRA '93.)	_____	_____	_____
403) Consider the provisions of Rev. Proc. 96-31 to rectify prior year claims of less than allowable depreciation or amortization.	_____	_____	_____
404) Determine if leased property should be capitalized.	_____	_____	_____
405) Consider anti-churning rules.	_____	_____	_____
406) For listed property (e.g., cellular phones, autos, computers, airplanes, boats):			
.1) For autos, consider the maximum allowable under the luxury auto rules.	_____	_____	_____
.2) For autos, determine limitation if the business usage is 50% or less.	_____	_____	_____
.3) Determine limitations for all other mixed-use property, if the business usage is 50% or less.	_____	_____	_____
.4) Inquire if the taxpayer has kept the required records indicating the business and personal use of property.	_____	_____	_____
5) Determine recapture if the business usage is 50% or less.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
407) Form 4562 (if required):			
.1) Reconcile depreciation expense to supporting schedules.	_____	_____	_____
.2) Complete questions regarding personal use of listed property.	_____	_____	_____
.3) If the costs were incurred during the current year, determine that amortizable items are separately stated and the proper Code section cited.	_____	_____	_____
408) Consider state depreciation, if different.	_____	_____	_____
409) Consider federal and state AMT depreciation.	_____	_____	_____
410) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture.	_____	_____	_____
500) TAX COMPUTATIONS AND CREDITS			
501) Compute regular tax.	_____	_____	_____
502) Consider alternative tax rate on net capital gains (SBJPA 1996).	_____	_____	_____
503) If this is a consolidated tax return:			
.1) Attach Form 851.	_____	_____	_____
.2) Attach Form 1122 (only for consolidated group's first year).	_____	_____	_____
.3) Determine that intercompany eliminations and restorations are calculated correctly.	_____	_____	_____
.4) Attach election to allocate tax liability of group.	_____	_____	_____
504) If taxpayer is part of a controlled group, consider special allocation rules under §§ 1561 and 1563. Attach apportionment schedule.	_____	_____	_____
505) Alternative minimum tax:			
.1) Consider adjustments to regular taxable income or loss such as:			
(a) Depreciation on property placed in service after 1986 (or July 31, 1986, if election was made) must be computed using ADS (Rev. Proc. 87-57).	_____	_____	_____
(b) Mining exploration and development costs must be capitalized and amortized over a ten-year period.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(c) Gains/losses on sales and exchanges are to be recomputed using AMT adjusted basis.	_____	_____	_____
(d) Income from long-term contracts entered into after February 28, 1986 must be computed using the percentage-of-completion method of accounting. (Note exception for home construction contracts.)	_____	_____	_____
(e) Income from post-February 28, 1986 disposition of real or personal property held for sale in the ordinary course of business shall be determined without regard to the installment method, except in cases where an election is made to pay interest on the tax deferred by the installment method.	_____	_____	_____
(f) All gains and losses from tax shelter farm activities, that are not passive activities, are to be recomputed by taking into account any AMT adjustments and tax preference items (PSCs only).	_____	_____	_____
(g) All passive activity gains and losses are to be recomputed by taking into account any AMT adjustments, tax preference items, and AMT prior year unallowed losses (closely held corporations and PSCs only).	_____	_____	_____
.2) Consider tax preference items to be added such as:			
(a) Tax exempt interest from private activity bonds issued after August 7, 1986.	_____	_____	_____
(b) Excess intangible drilling costs.	_____	_____	_____
(c) Accelerated depreciation on real property placed in service before 1987.	_____	_____	_____
(d) Accelerated depreciation on leased personal property placed in service prior to 1987 (PHCs only).	_____	_____	_____
.3) Adjusted current earnings (ACE) adjustment (§ 56(g)) must be calculated taking into account adjustments such as:			
(a) Depreciation for property placed in service prior to 1994.	_____	_____	_____
(b) E&P inclusion items:			
i) Net tax exempt interest income.	_____	_____	_____
ii) Net death benefits from life insurance contracts.	_____	_____	_____
iii) Other.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(c) E&P disallowed items:			
i) Dividends received deduction (70%).	_____	_____	_____
ii) Other.	_____	_____	_____
(d) Other E&P adjustments:			
i) LIFO.	_____	_____	_____
ii) Amortization of organization expense.	_____	_____	_____
iii) Installment sales.	_____	_____	_____
iv) Other.	_____	_____	_____
.4) Use AMT net operating loss (NOL) deduction in place of the regular NOL deduction. Post-1986 AMT NOL deduction is available only to the extent of 90% of pre-NOL AMTI.	_____	_____	_____
.5) Consider foreign tax credit.	_____	_____	_____
.6) Consider AMT credit carryover.	_____	_____	_____
.7) Consider potential relief under AMT Tax Benefit Rule § 59(g).	_____	_____	_____
506) Environmental Tax:			
.1) If AMTI before energy preferences and any NOL deduction is greater than \$2,000,000, consider the 0.12 percent environmental tax. See § 1561 for a limitation on the \$2,000,000 exemption for controlled corporations.	_____	_____	_____
.2) Deduct environmental tax as a tax expense in computing taxable income (§ 164(a)(5)).	_____	_____	_____
507) Consider § 1341 claim of right where an item of income was included in gross income in a previous year and a deduction for such item is allowable this year.	_____	_____	_____
508) Determine if the corporation is eligible for tax credits such as:			
.1) Foreign tax credit.	_____	_____	_____
.2) Investment tax credit (rehabilitation and transition, energy and reforestation).	_____	_____	_____
.3) Credit for increasing research activities. (See SBJPA 1996 for extension through May 31, 1997.)	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.4) Enhanced oil recovery credit.	_____	_____	_____
.5) Credit for producing fuels from nonconventional source.	_____	_____	_____
.6) Gasoline and special fuels credit.	_____	_____	_____
.7) Low income housing credit.	_____	_____	_____
.8) Disabled access credit.	_____	_____	_____
.9) Qualified electric vehicle credit (Form 8834).	_____	_____	_____
.10) Renewable electricity production credit (Form 8835).	_____	_____	_____
.11) Credit for employer social security taxes paid on certain employee cash tips (Form 8846).	_____	_____	_____
.12) Credit related to wage and health insurance costs for qualified Indian employees (Form 8845).	_____	_____	_____
.13) Credit for contributions to certain community development corporations (Form 8847).	_____	_____	_____
.14) Credit for alcohol used as a fuel.	_____	_____	_____
.15) Empowerment zone employment credit (Form 8844).	_____	_____	_____
.16) The Work Opportunity Credit for eligible employees after September 30, 1996 (SBJPA 1996).	_____	_____	_____
.17) The credit for qualified clinical testing expenses (Orphan Drug Credit), paid or incurred after June 30, 1996 and associated carrybacks and carryovers (SBJPA 1996).	_____	_____	_____
509) Determine if the corporation is a personal holding company. If so, prepare Schedule PH, Form 1120.	_____	_____	_____
510) Determine if the corporation is a personal service corporation subject to tax without benefit of graduated rates.	_____	_____	_____
511) Consider whether accumulated earnings tax exposure is present. Note exceptions.	_____	_____	_____
512) Confirm the amounts and dates of any federal, state and local estimated tax deposits for the year, prior year overpayments applied, backup withholding and extension payments.	_____	_____	_____
513) If estimated tax deposits are less than 100% of the tax liability, including alternative minimum tax, consider filing Form 2220.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
514) Consider estimated tax payments, alternate "large corporation" estimate payment calculation and electronic filing requirements. Note: Prior year safe harbor does not apply if prior year return was not for twelve months, shows no tax or if no prior year return was filed.	_____	_____	_____
515) Consider election to use one of the two new optional time periods to determine annualized income for purposes of paying estimated taxes (Form 8842 must be filed by the 15th day of the fourth month of the tax year for which the election is to apply).	_____	_____	_____
516) Consider filing Form 4466 for a quick refund of overpaid estimated tax.	_____	_____	_____
600) OTHER REQUIREMENTS			
601) If the corporation is party to an "applicable asset acquisition" (transfer of assets that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met (Form 8594).	_____	_____	_____
602) If the corporation has made a qualifying stock purchase attach Form 8023A. Consider the election to treat the purchase as an asset acquisition (§ 338).	_____	_____	_____
603) Determine if Form 8271 is required for tax shelters.	_____	_____	_____
604) Net Operating Losses (NOL):			
.1) If an NOL deduction is claimed, prepare a supporting schedule to be attached to the return.	_____	_____	_____
.2) If there is a current year NOL, consider the election to forego the carryback.	_____	_____	_____
.3) Determine if part of a current NOL is attributable to a specified liability loss, such as product liability (§ 172(b)(i)(c)). Attach statement (Reg. § 1.172 - 13(c)).	_____	_____	_____
.4) If there is an NOL incurred in the current year, or a carryforward deducted in the current year, disclosure is required of any change in ownership.	_____	_____	_____
.5) Consider preparing Form 1139 for carrybacks.	_____	_____	_____
.6) If a net operating loss is anticipated for next year, consider filing Form 1138 to extend time for paying current year's tax.	_____	_____	_____
.7) Consider state and AMT differences.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
605) Consider elections and statements such as:			
.1) Election to amortize organization expense.	_____	_____	_____
.2) Election to amortize business start-up costs.	_____	_____	_____
.3) Cash vs. accrual method.	_____	_____	_____
.4) Election to expense intangible drilling costs.	_____	_____	_____
.5) § 351, statement of transferred assets.	_____	_____	_____
.6) Method for valuation of inventory.	_____	_____	_____
.7) Research and experimental costs.	_____	_____	_____
.8) Exception from economic performance for recurring items. Under final regulations, the election for any item(s) incurred for the first time is made by accounting for the item(s) under the recurring method on a timely filed tax return.	_____	_____	_____
.9) If this is the first year the taxpayer has incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception (Rev. Proc. 92-28).	_____	_____	_____
.10) Election to apply any overpayment to a particular quarter other than the first (Rev. Rul. 88-98).	_____	_____	_____
.11) Section 265 (expenses and interest related to tax-exempt income) allocation statement.	_____	_____	_____
606) Determine if expenditures were incurred that are eligible for the Disabled Access Credit (Form 8826). If the taxpayer does not qualify for the credit or has expenditures in excess of the credit limit, consider making § 190 election to expense the costs.	_____	_____	_____
607) Consider applicable reporting requirements, including information reporting Forms 1099, for the following corporate liquidation and reorganization transactions:			
.1) Reorganizations (Reg. § 1.368-3).	_____	_____	_____
.2) Liquidation (Reg. § 1.332-6).	_____	_____	_____
.3) Corporate separations (Reg. § 1.355-5).	_____	_____	_____
608) Reconcile net income per books to taxable income per return, including review of prior year's schedule M-1 adjustments.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
609) Cross reference the following items:			
.1) Schedule L beginning balances to prior year's ending balances.	_____	_____	_____
.2) Schedule M-2 beginning retained earnings to prior year's ending balance.	_____	_____	_____
.3) Detail listings of Schedule L beginning balances to prior year's detail listings of ending balances.	_____	_____	_____
.4) Carryforward items to carryover schedule/prior year returns.	_____	_____	_____
610) Cross reference line items to supporting schedules within the return.	_____	_____	_____
611) Consider § 6662 accuracy-related penalty. If this penalty could apply:			
.1) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275 or 8275R).	_____	_____	_____
.2) Consider advising the taxpayer, in writing, of the penalty.	_____	_____	_____
612) Consider filing requirements related to ownership in foreign corporations (Form 5471).	_____	_____	_____
613) Consider filing requirements of foreign owned corporations (Form 5472).	_____	_____	_____
614) Determine if Form TD F 90-22.1 is needed to report foreign financial accounts.	_____	_____	_____
615) Consider other foreign reporting requirements.	_____	_____	_____
616) Prepare state and local tax returns (see Nexus Practice Guide) and review each state's modification requirements. Compile apportionment data.	_____	_____	_____
Consider the following:			
.1) State tax credits.	_____	_____	_____
.2) Taxpayer doing business in new states.	_____	_____	_____
.3) Unitary or consolidated filing requirements or opportunities.	_____	_____	_____
.4) Allocation of investment income.	_____	_____	_____
.5) Carryback claims.	_____	_____	_____
.6) Applicability of throwback rule for "non-taxed" out of state sales.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST

1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.7) Estimated taxes.	_____	_____	_____
.8) If appropriate, trace sales from apportionment factor to sales tax returns.	_____	_____	_____
.9) Appropriate treatment of federal consolidated return items not reflected in separate company state filings.	_____	_____	_____
617) Extended returns:			
.1) Attach extension requests.	_____	_____	_____
.2) Verify that payments per extensions agree with tax returns.	_____	_____	_____
.3) If extension payment did not cover the full tax for the year, consider:			
(a) Adding interest to balance due.	_____	_____	_____
(b) Adding a statement disclosing reasonable cause to avoid the failure to pay penalty (§ 6651(a)(2)).	_____	_____	_____
618) Determine if there have been non-dividend distributions (Form 5452).	_____	_____	_____
619) Information returns:			
.1) Inquire if taxpayer has complied with magnetic media requirements for Forms 1099 and W-2.	_____	_____	_____
.2) Inquire whether the corporation has filed all required information returns (1098 and 1099 series) and whether the value of the personal use of employer property, expense reimbursements under "unaccountable plans," and § 401(k) deferred compensation information has been included in employees' W-2s. Note Form 1099-C to report cancellation of debt.	_____	_____	_____
.3) Inquire if additional items subject to employer FICA such as § 401(k) deferrals, employer-provided excess group-term life insurance, all cash tips, etc., have been reported.	_____	_____	_____
.4) Determine that reimbursement of employee moving expenses are properly reported (RRA '93).	_____	_____	_____
.5) Inquire whether club dues, spousal travel, etc., are treated as compensation and included on employee's W-2.	_____	_____	_____
620) Inquire if employment taxes were timely deposited.	_____	_____	_____
621) Inquire if the corporation has updated the corporate minute book.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
622) Advise the corporation that any unpaid retirement plan contribution for the year must be made before the due date of the return, including extension.	_____	_____	_____
623) Inquire if the required 5500 series forms have been filed for retirement plans covered by this period.	_____	_____	_____
624) Inquire if the required 5500 series forms have been filed for cafeteria plans and welfare benefit plans (e.g., medical benefit plans, life insurance, disability or death benefit plans that have more than 100 participants).	_____	_____	_____
625) Compare taxable income or loss to projections.	_____	_____	_____
626) Determine that related party transactions are properly reported on all available returns.	_____	_____	_____
627) With respect to related party transactions, determine that the taxpayer has adequate contemporaneous documentation to substantiate the arms length pricing of the transaction.	_____	_____	_____
628) Determine that salary and other transactions between the corporation and officers/shareholders are properly recorded on all available returns.	_____	_____	_____
629) If the corporation is a member of a partnership, consider § 465 at risk and/or § 704(d) basis rules.	_____	_____	_____
630) If the corporation sells an interest in a partnership that has § 751(a) assets, attach the required statement under Reg. § 1.751-1(a)(3).	_____	_____	_____
631) If a distribution or technical termination has occurred in a partnership in which the corporation is a partner, consider making a § 732(d) election.	_____	_____	_____
632) Consider informing client of requirements to file Form 8300 for certain payments received exceeding \$10,000.	_____	_____	_____
633) Consider whether an "S" election should be made.	_____	_____	_____
634) Note tax planning suggestions.	_____	_____	_____

COMMENTS OR EXPLANATIONS

MINI-CHECKLIST

S CORPORATION INCOME TAX RETURN

1996 - FORM 1120S

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
GENERAL INFORMATION			DEDUCTIONS		
1. Review prior year returns, workpapers, correspondence and audit results.	<input type="checkbox"/>	<input type="checkbox"/>	1. Consider uniform capitalization rules.	<input type="checkbox"/>	<input type="checkbox"/>
2. Document any changes in corporation's name and address, shareholders' names and addresses, FYE, and business code.	<input type="checkbox"/>	<input type="checkbox"/>	2. Determine deductibility of vacation pay accrual.	<input type="checkbox"/>	<input type="checkbox"/>
3. Consider signed engagement letter.	<input type="checkbox"/>	<input type="checkbox"/>	3. Determine applicability of 2½ month deferred comp rule for nonshareholder employees and independent contractors	<input type="checkbox"/>	<input type="checkbox"/>
4. Review pro forma accuracy.	<input type="checkbox"/>	<input type="checkbox"/>	4. Determine that fringe benefits for more than 2% shareholders are properly reported on W-2 and deducted.	<input type="checkbox"/>	<input type="checkbox"/>
5. Consider below-market-rate loan rules.	<input type="checkbox"/>	<input type="checkbox"/>	5. Inquire if travel and entertainment expenses are substantiated by adequate records.	<input type="checkbox"/>	<input type="checkbox"/>
6. Determine officers' compensation.	<input type="checkbox"/>	<input type="checkbox"/>	6. Limit meals and entertainment to allowable percentage.	<input type="checkbox"/>	<input type="checkbox"/>
7. If fiscal year retained, determine that Form 8716 timely filed and "required payments" made.	<input type="checkbox"/>	<input type="checkbox"/>	7. Consider the following for officers and shareholders:		
8. Review methods of accounting.	<input type="checkbox"/>	<input type="checkbox"/>	Nondeductible officers' life insurance.	<input type="checkbox"/>	<input type="checkbox"/>
9. Consider recurring item exception election for accrual method taxpayers.	<input type="checkbox"/>	<input type="checkbox"/>	Limitation on losses, or accruals between related parties.	<input type="checkbox"/>	<input type="checkbox"/>
10. Update carryforward schedules including effect of prior period tax audits.	<input type="checkbox"/>	<input type="checkbox"/>	Inadequate compensation.	<input type="checkbox"/>	<input type="checkbox"/>
11. Review financial statements and footnotes for relevant information.	<input type="checkbox"/>	<input type="checkbox"/>	8. Limit interest incurred to purchase or carry market discount bonds or short-term debt obligations.	<input type="checkbox"/>	<input type="checkbox"/>
INCOME			9. Limit retirement contributions to allowable amount.	<input type="checkbox"/>	<input type="checkbox"/>
1. Compare portfolio income with prior year.	<input type="checkbox"/>	<input type="checkbox"/>	10. Properly report expenses allocable to portfolio income on Schedules K and K-1 and not deducted on page 1, 1120S.	<input type="checkbox"/>	<input type="checkbox"/>
2. Include only trade or business income on page 1, Form 1120S.	<input type="checkbox"/>	<input type="checkbox"/>	11. Consider limitations on deductibility of:		
3. Determine that dispositions of property are reported properly.	<input type="checkbox"/>	<input type="checkbox"/>	Bad debts	<input type="checkbox"/>	<input type="checkbox"/>
4. Consider the following:			Club dues	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary income on market discount bonds and deferral of related interest expense	<input type="checkbox"/>	<input type="checkbox"/>	Lobbying expense	<input type="checkbox"/>	<input type="checkbox"/>
Installment sales and related interest charge on deferred tax	<input type="checkbox"/>	<input type="checkbox"/>	Casualty loss	<input type="checkbox"/>	<input type="checkbox"/>
Sales or exchanges between the corporation and shareholder or other related parties	<input type="checkbox"/>	<input type="checkbox"/>	DEPRECIATION/AMORTIZATION		
At risk rules	<input type="checkbox"/>	<input type="checkbox"/>	1. Consider the following:		
Discharge of indebtedness (Impact of new rules on basis)	<input type="checkbox"/>	<input type="checkbox"/>	§ 179 election.	<input type="checkbox"/>	<input type="checkbox"/>
Worthless Securities	<input type="checkbox"/>	<input type="checkbox"/>	Requirements relating to listed property.	<input type="checkbox"/>	<input type="checkbox"/>
5. Consider separate reporting of passive activities on K-1 schedules (see Passive Activity Checklist).	<input type="checkbox"/>	<input type="checkbox"/>	Capitalization of leased property.	<input type="checkbox"/>	<input type="checkbox"/>
			Methods and lives.	<input type="checkbox"/>	<input type="checkbox"/>
			Amortization of goodwill and other intangibles.	<input type="checkbox"/>	<input type="checkbox"/>
			2. Compute AMT depreciation.	<input type="checkbox"/>	<input type="checkbox"/>
			TAX COMPUTATION AND CREDITS		
			Consider the following:		
			Tax on excess net passive income.	<input type="checkbox"/>	<input type="checkbox"/>
			Tax on built-in gain.	<input type="checkbox"/>	<input type="checkbox"/>

MINI-CHECKLIST
S CORPORATION INCOME TAX RETURN
1996 - FORM 1120S

Done N/A

Done N/A

Tax on capital gains. ☐ ☐
 Credit recapture tax. ☐ ☐
 Estimated federal and state tax payments. ☐ ☐
 Tax underpayment penalty. ☐ ☐
 Tax credit. See SBJPA 1996. ☐ ☐

2. Consider risk of accuracy-related penalty. (§ 6662) ☐ ☐
 3. Inquire whether all required information returns have been filed. ☐ ☐
 4. Prepare state and local tax returns and report necessary shareholder information. ☐ ☐
 5. Attach extension requests. ☐ ☐
 6. Note tax planning suggestions. ☐ ☐

SHAREHOLDER INFORMATION

1. Shareholder allocation/limitation:

Determine that income, deductions, and credits are allocated to the shareholders on a per-share, per-day basis. ☐ ☐
 If complete termination occurred, consider specific cut off. ☐ ☐
 Attach shareholder consent and statement of election. (Prop. Reg. § 1.1377-1) ☐ ☐

2. Shareholder distribution/basis computations:

Determine that equity increases and decreases (Schedule M) are properly segregated among:

Accumulated adjustment account. ☐ ☐
 Other adjustments account. ☐ ☐
 Shareholders undistributed PTI. ☐ ☐

Determine proper reporting if distributions exceed accumulated adjustment account. ☐ ☐

Determine that gains are recognized and allocated to each shareholder for distribution of appreciated property. ☐ ☐

3. Consider Shareholder Basis Practice Guide. ☐ ☐

K-1 INFORMATION

1. Properly reflect shareholders' shares of all items that affect tax liability. ☐ ☐
 2. Segregate and report tax preference and adjustment items. ☐ ☐
 3. Determine that information relating to interest expense on debt-financed distributions has been provided. ☐ ☐

OTHER

1. Consider elections and statements such as:

Cash vs. accrual ☐ ☐
 Amortize organization expenses ☐ ☐
 Method of valuation of inventory ☐ ☐
 Ratable accrual of real property taxes (first year only) ☐ ☐
 Amortize business start-up cost ☐ ☐
 Research and experimental cost ☐ ☐
 Exception from economic performance for recurring clients (first year only) ☐ ☐

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review and update the S corporation and shareholder's names, addresses, fiscal year, incorporation date, business code, identification numbers, and IRS and other tax processing centers. Note changes.	_____	_____	_____
102) Identify the name, address and identifying number of the Tax Matters Person (if subject to consolidated audit procedures).	_____	_____	_____
103) Review permanent file, prior year returns, workpapers, etc.	_____	_____	_____
104) Obtain information concerning IRS, state tax audits and/or correspondence.	_____	_____	_____
105) Consider signed engagement letter.	_____	_____	_____
106) Inquire whether the S corporation has made or received any below-market-rate loans. If so, determine imputed interest consequences.	_____	_____	_____
107) Review for adequate interest on new or modified debt instrument.	_____	_____	_____
108) Ascertain officers' compensation and review for reasonableness.	_____	_____	_____
109) If the corporation has selected an allowable fiscal tax year, determine that Form 8716 has been timely filed, and that "required payments" have been made.	_____	_____	_____
110) Review computer-generated pro forma for accuracy.	_____	_____	_____
111) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
112) Review and update schedules for carryforward items and effect of prior tax audits.	_____	_____	_____
113) Review financial statements and footnotes for relevant information.	_____	_____	_____
114) Review Board minutes.	_____	_____	_____
115) Consider filing Form 8821 or 2848.	_____	_____	_____
200) INCOME			
201) Compare sources and amounts of portfolio income with prior year.	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1996-FORM 1120S

		<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
202)	Determine that only trade or business (e.g., not portfolio or rental) income is reported on Page 1 of Form 1120S.	_____	_____	_____
203)	Review dispositions of property for holding period and federal, state, AMT bases. Consider nonrecognition, gains, losses and recaptures. (SBJPA 1996)	_____	_____	_____
204)	Consider the following:			
	.1) Wash sales.	_____	_____	_____
	.2) Sales or exchanges between the corporation and shareholder.	_____	_____	_____
	.3) Worthless securities.	_____	_____	_____
	.4) At risk rules.	_____	_____	_____
	.5) Installment sales and related interest charged on deferred tax.	_____	_____	_____
	.6) Discharge of indebtedness.	_____	_____	_____
	.7) Tax-exempt income and related interest expense disallowance.	_____	_____	_____
	.8) Like-kind exchanges and related party exchanges (Form 8824).	_____	_____	_____
205)	Determine that deferred income and expenses for book purposes are properly reported for tax purposes. (SBJPA 1996)	_____	_____	_____
206)	If the S corporation has passive income or losses from one or more activities, they may be required to be separately reported on the Schedule K-1 (see Passive Activity Checklist).	_____	_____	_____
207)	Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
208)	Consider mark to market rules for "dealers in securities" (§ 475).	_____	_____	_____
209)	Consider appropriate income inclusion amount for leased property. (See Vehicle Related Guides).	_____	_____	_____
300)	DEDUCTIONS			
301)	Consider the uniform capitalization rules.	_____	_____	_____
302)	Identify any nondeductible vacation pay accrual.	_____	_____	_____
303)	Inquire whether the S corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel, conventions. Consider optional per diem method. Note new \$75 substantiation requirement (see Reg. § 1.274-5T(c)(2)(iii)).	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1996-FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
304) Limit deduction for meals and entertainment to allowable percentage. Consider exceptions.	_____	_____	_____
305) Officers and shareholders:			
.1) Determine the ownership of life insurance policies and the proper treatment of related expenses.	_____	_____	_____
.2) Identify expenses, including interest if applicable, for officers' life insurance which are non deductible.	_____	_____	_____
.3) Determine limitation on any losses or accruals of expenses during the year between related corporations/shareholders under § 267(a)(1).	_____	_____	_____
.4) Determine if expenses to shareholders (§ 267(e)) or other related parties on the cash basis were paid by corporation's year end.	_____	_____	_____
.5) Determine if compensation to shareholders who perform substantial services for the corporation was reasonable.	_____	_____	_____
306) Verify that the proper allocations have been made dividing interest expense among various types of expenditures.	_____	_____	_____
307) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
308) Determine that retirement plan contributions are made timely and within allowable limits.	_____	_____	_____
309) Determine that fringe benefits for more than 2% shareholders have been reported on the recipient shareholders' W-2s (usually non FICA wages) and claimed as a deduction by the S corporation.	_____	_____	_____
310) Determine that expenses allocable to portfolio income have not been deducted on Page 1, Form 1120S.	_____	_____	_____
311) Determine that specific charge off method is used for bad debts.	_____	_____	_____
312) Determine that certain lobbying expenses are not deducted.	_____	_____	_____
313) Determine the deductibility of club dues.	_____	_____	_____
314) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
315) Consider economic performance requirement and recurring item exceptions.	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1996-FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
400) DEPRECIATION/AMORTIZATION			
401) Consider all depreciation requirements and options including:			
.1) § 179 election.	_____	_____	_____
.2) Requirements relating to listed property.	_____	_____	_____
.3) Determine if leased property should be capitalized.	_____	_____	_____
.4) Methods and lives.	_____	_____	_____
.5) Consider 36-month depreciation rules for software.	_____	_____	_____
402) Consider AMT depreciation.	_____	_____	_____
403) Determine that amortizable items, including goodwill, are written off over the correct periods. (See RRA '93).	_____	_____	_____
500) TAX COMPUTATION AND CREDITS			
501) Consider tax on excess net passive income.	_____	_____	_____
502) Consider tax on built-in gain.	_____	_____	_____
503) Consider tax on capital gains.	_____	_____	_____
504) Consider credit recapture.	_____	_____	_____
505) Claim current year estimated tax payments, prior year overpayments applied and extension payments.	_____	_____	_____
506) Consider requirement for estimated tax payments.	_____	_____	_____
507) Consider tax credits. (SBJPA 1996)	_____	_____	_____
508) If member of a controlled group, attach apportionment schedules.	_____	_____	_____
600) SHAREHOLDER INFORMATION			
601) Shareholder allocation/limitation:			
.1) Determine that items of income, deductions, credits, etc., are allocated to the shareholders on a per-share, per-day basis.	_____	_____	_____
.2) If stock transfers occurred during the year resulting in a termination of a shareholder's interest, consider allocations based on time of actual occurrence. Attach the shareholder consent and statement of election (Prop. Reg. § 8.1377-1).	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1996-FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
602) Shareholder distribution/basis computations:			
.1) Determine that equity increases and decreases (Schedule M) are properly segregated between:			
(a) Accumulated adjustment account.	_____	_____	_____
(b) Other adjustments account.	_____	_____	_____
(c) Shareholders' undistributed PTI.	_____	_____	_____
.2) Determine that distributions exceeding accumulated adjustment account for S corporations with earnings and profits from C or pre-1983 S years are reported (Form 1099-DIV) to shareholders as dividends to the extent of accumulated earnings and profits.	_____	_____	_____
.3) For distributions of appreciated property, determine that gain is recognized and allocated to each shareholder.	_____	_____	_____
.4) Consider Shareholder Basis Practice Guide.	_____	_____	_____
700) K-1 INFORMATION			
701) Determine that proper reporting has been provided for all items on Schedule K-1 that affect shareholder's tax liability.	_____	_____	_____
702) Provide information about nontaxable income and nondeductible expenses to enable shareholders to make adjustments to basis of their stock.	_____	_____	_____
703) Segregate all tax preference and adjustment items and report on the appropriate lines.	_____	_____	_____
704) Determine that information relating to interest expense of debt-financed distributions to shareholders has been provided. (Notice 89-35)	_____	_____	_____
800) OTHER REQUIREMENTS			
801) Compare taxable income to projections.	_____	_____	_____
802) Consider elections such as:			
.1) Cash vs. accrual.	_____	_____	_____
.2) Amortization of organization expense.	_____	_____	_____
.3) Method for valuation of inventory.	_____	_____	_____
.4) Ratable accrual of real property taxes (first year only).	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1996-FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
.5) Amortization of business start-up costs.	_____	_____	_____
.6) Research and experimental cost.	_____	_____	_____
.7) Exception from economic performance for recurring items (first year only).	_____	_____	_____
803) If the corporation was a party to an "applicable asset acquisition," determine that the reporting requirements have been met (Form 8594).	_____	_____	_____
804) Attach extension requests.	_____	_____	_____
805) Inquire if information returns (1098 and 1099 series) have been filed.	_____	_____	_____
806) Inquire if employment taxes were timely deposited.	_____	_____	_____
807) Inquire if employee benefit plans have been reviewed to determine if they are in compliance due to changing corporate circumstances and law changes.	_____	_____	_____
808) Determine that related transactions are properly reported on all available returns.	_____	_____	_____
809) Reconcile income and expenses per books with return.	_____	_____	_____
810) Prepare state and local tax returns. Furnish necessary information to shareholders. (See Nexus Practice Guide).	_____	_____	_____
811) Consider risk of accuracy-related penalty (§ 6662).	_____	_____	_____
812) Note tax planning suggestions.	_____	_____	_____

COMMENTS OR EXPLANATIONS

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review the S corporation and shareholder's names, addresses, fiscal year, incorporation date, business code, identification numbers, and IRS and other tax processing centers. Note changes.	_____	_____	_____
102) List the name, address and identifying number of the Tax Matters Person (TMP)(if subject to the consolidated audit procedures). TMP must be a shareholder.	_____	_____	_____
103) Consider signed engagement letter.	_____	_____	_____
104) Review permanent file, prior year returns, memos, workpapers, carryovers and correspondence files.	_____	_____	_____
105) Review computer-generated pro forma for accuracy.	_____	_____	_____
106) If the S corporation has been examined by the Internal Revenue Service, state or local taxing authority:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine that the agent's adjustments have been entered on the S corporation's records, and appropriate carryover workpapers.	_____	_____	_____
.3) If the agent's adjustments affect income tax returns of years other than those audited, or the corresponding federal or state returns for the same year, consider filing amended returns.	_____	_____	_____
.4) Inquire whether TMP has informed the shareholders of examination by the IRS or state agency.	_____	_____	_____
107) Inquire whether the S corporation has made or received any below-market-rate loans. Determine imputed interest consequences and existence of properly executed note.	_____	_____	_____
108) Review for adequate stated interest on all new or modified debt instruments. Determine whether original issue discount or unstated interest rules require restatement of note interest and principal. (Note new regulations under § 1274.)	_____	_____	_____
109) Review for proper reporting of interest recognition in accordance with Reg. §§ 1.483-4 and 1.1274-5 for debt instruments providing contingent payments.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
110) Election/revocation/termination of S status:			
.1) If S status was <u>elected</u> during the current year:			
(a) Confirm that IRS (and state if applicable) approval of the election has been received and is in effect for the current year.	_____	_____	_____
(b) Consider scheduling potential "built-in" gains at date of election.	_____	_____	_____
(c) Consider requesting relief of an invalid election under §§ 1362(b)(5) and 1362(f). (SBJPA 1996)	_____	_____	_____
.2) If the S status was <u>revoked</u> during the current year:			
(a) Confirm that a revocation was properly filed.	_____	_____	_____
(b) Determine whether the revocation is effective for the entire year (if filed within the first 2½ months of the year) or prospectively.	_____	_____	_____
(c) Obtain a copy of IRS approval letter.	_____	_____	_____
.3) Events terminating S status:			
(a) Determine that no disqualifying event has occurred related to excess number of shareholders, prohibited type of shareholder, activation of a subsidiary or issuance of a second class of stock.	_____	_____	_____
(b) Determine that termination is not triggered by excess passive income for three consecutive years if corporation has C corporation accumulated earnings and profits.	_____	_____	_____
.4) If S status was <u>terminated</u> or revoked during the year:			
(a) Verify allocation method - per day basis or actual. More than 50% cumulative change in stock ownership during the year requires actual. If electing actual, match the election and the shareholders' consent.	_____	_____	_____
(b) Consider C corporation estimated tax payments for the succeeding year based on the S corporation's net income.	_____	_____	_____
(c) Consider requesting relief under the "inadvertent termination rule" under § 1362(f). (SBJPA 1996)	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
111) If the corporation has selected an allowable fiscal tax year, determine that Form 8716 has been timely filed, and that "required payments" have been made. Note that a copy of Form 8716 must be attached to Form 1120S for the first taxable year for which the election is made.	_____	_____	_____
112) If the corporation is on the cash basis, determine if the accrual basis is required (generally, gross receipts in excess of \$5 million).	_____	_____	_____
113) Determine that accounting methods are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
114) Consider economic performance requirements and recurring item exceptions.	_____	_____	_____
115) Review and update schedules for federal and state carryover items (regular and AMT) such as:			
.1) Prior year deferred deductions.	_____	_____	_____
.2) Installment sales.	_____	_____	_____
.3) Changes in accounting methods requiring § 481 adjustments.	_____	_____	_____
.4) Suspended losses/credits due to at-risk limitations.	_____	_____	_____
.5) Compare losses to basis limitations to determine deductibility of losses; update basis schedules accordingly.	_____	_____	_____
.6) Net unrealized built-in gain.	_____	_____	_____
116) Review financial statements and footnotes for relevant information.	_____	_____	_____
117) Review Board minutes.	_____	_____	_____
118) Review prior year's return schedule M-1 for items which may have an effect upon or require similar treatment in the current year.	_____	_____	_____
119) Consider filing Form 8821 or 2848.	_____	_____	_____
200) INCOME			
201) Compare sources and amounts of portfolio income with prior year.	_____	_____	_____
202) Determine that only trade or business (e.g., not portfolio or rental) income is shown on page 1 of Form 1120S.	_____	_____	_____
203) Determine that installment sales are reported properly.			
.1) Consider related party rules.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Determine that the full amount of depreciation recapture is reported in the year of sale whether or not payment was received in that year.	_____	_____	_____
.3) Review for adequate stated interest on debt instruments received in connection with the sale. Determine whether original issue discount or unstated interest rules require restatement of note interest and principal.	_____	_____	_____
.4) If the taxpayer is a "dealer" with respect to the related property:	_____	_____	_____
(a) Determine that the installment method is <u>not</u> used to report post- December 31, 1987 sales of dealer property. (Exceptions - farm property, certain timeshare rights and residential lots if proper election is made.)	_____	_____	_____
(b) Determine that the interest owed as a result of an election in (a) above is properly reported. Note that interest calculation is made at shareholder level.	_____	_____	_____
.5) Consider special rules for installment reporting by certain non-dealers of real (post-1986 sales) or personal property (post-1988 sales) where the sales price exceeds \$150,000 (§ 453A). (Does not apply to certain farm property.)	_____	_____	_____
(a) Compute the interest charge imposed on outstanding tax deferred installment obligations if the face amount of these obligations that arose during, and are still outstanding at the close of the tax year exceeds \$5,000,000. Note that the \$5,000,000 threshold test and interest calculation are done at the shareholder level. (Announcement 89-33).	_____	_____	_____
(b) Determine that the proper amount is treated as a collection on any pledged installment obligation.	_____	_____	_____
.6) Consider election out of installment method.	_____	_____	_____
.7) Determine if an event has occurred requiring accelerated recognition of the remaining unreported gain (e.g., resale rule for related parties, cancellation of the installment obligation, disposition of the installment obligation).	_____	_____	_____
204) For disposed property:			
.1) Reconcile to depreciation schedule.	_____	_____	_____
.2) Determine holding period and federal, state, and AMT tax basis.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Determine that gains and losses are properly characterized:			
(a) Ordinary, § 1231, capital.	_____	_____	_____
(b) Long term, short term.	_____	_____	_____
.4) Consider the provisions related to:			
(a) Non-recognition of gain or loss. (Form 8824).	_____	_____	_____
(b) Rules for like-kind and related party exchanges. (Form 8824)	_____	_____	_____
(c) Recapture of depreciation (including § 291 recapture) and/or tax credit, or reduction of credit carryforwards.	_____	_____	_____
205) Deferred income and expenses:			
.1) Include in gross income, as appropriate, income deferred for books in the current year.	_____	_____	_____
.2) Exclude from gross income, as appropriate, income for books in the current year that was taken into income for tax in a prior year.	_____	_____	_____
.3) Determine deductibility of prepaid expenses.	_____	_____	_____
206) Review application of the wash sale rules.	_____	_____	_____
207) Determine that sales of securities settled after year end, with a trade date within current year, are reported this year. Note special rules for short sales in § 1233.	_____	_____	_____
208) Determine if there were passive activities. Note requirement to group activities. (See Passive Activity Checklist).	_____	_____	_____
209) Inquire if securities held by the S corporation became worthless during the year.	_____	_____	_____
210) Report rental real estate activities on Form 8825.	_____	_____	_____
211) For leased property, calculate the appropriate income inclusion amount to be reported by referring to the IRS tables. (See Vehicle Related Guides).	_____	_____	_____
212) Determine if there is income from discharge of indebtedness. See RRA '93.	_____	_____	_____
.1) Consider exclusion and elections under § 108.	_____	_____	_____
.2) Consider Form 982.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Review TAM 9423003 and the impact on basis.	_____	_____	_____
213) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
214) Inquire if the taxpayer engaged in bartering transactions.	_____	_____	_____
215) Consider limitations of losses for transactions with related parties.	_____	_____	_____
216) Consider the mark to market rules for "dealers in securities." Warning: the definition of "dealers in securities" contained in § 475 is not limited to Wall Street brokerage firms. The expansive definition includes many taxpayers involved in lending transactions and various seller financed activities.	_____	_____	_____
.1) Determine that § 475 assets are adjusted to fair market value at the end of the year.	_____	_____	_____
.2) Determine the § 481 adjustment.	_____	_____	_____
.3) Amortize the § 481 adjustment over 5 years (15 years for certain floor specialists and market makers) beginning with the year of change.	_____	_____	_____
.4) Determine if exempt securities were timely identified in taxpayer books and records.	_____	_____	_____
.5) Consider loss limitations for securities not properly identified.	_____	_____	_____
217) If a 1099-OID is received, compute for includible amount.	_____	_____	_____
300) DEDUCTIONS			
301) Review the taxpayer's vacation pay policy to determine if a deduction is allowable on the accrual basis (vested at year end and paid within two and one-half months after year end).	_____	_____	_____
302) Consider applicability of uniform capitalization rules to resellers with annual gross receipts in excess of \$10 million and all producers of property. (Note final regulations related to general rules (§ 1.263A-1), producers (§ 1.263A-2) and resellers (§ 1.263A-3)).	_____	_____	_____
.1) Determine that all costs are included.	_____	_____	_____
.2) Consider interest capitalization rules for debt incurred to produce property.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) If the beginning inventory is revalued:			
(a) Ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting (§ 481).	_____	_____	_____
(b) Ascertain § 481 forward spread period (not to exceed four years).	_____	_____	_____
(c) Determine that Form 3115 is attached to the tax return for the year of change.	_____	_____	_____
(d) Consider electing "simplified" methods.	_____	_____	_____
.4) For farmers and ranchers consider:			
(a) One-time election out of uniform capitalization rules if election was not required in a prior year.	_____	_____	_____
(b) The exemption for expenses incurred in the production of animals.	_____	_____	_____
.5) Review the definition of "produce" (Reg. § 1.263A-2(a)(1)(i)).	_____	_____	_____
303) Long-Term Contracts			
.1) Determine if the taxpayer is subject to the long-term contract reporting rules requiring that the percentage of completion method, instead of the completed contract method, be used to determine taxable income. Note exceptions for certain qualifying construction contracts and most contracts for the manufacture of property.	_____	_____	_____
.2) In determining whether contracts of the taxpayer are subject to the percentage of completion method of reporting, consider:			
(a) Related party rules.	_____	_____	_____
(b) Contract aggregation rules.	_____	_____	_____
.3) Determine that the percentage of completion is calculated based on costs incurred, not work performed.	_____	_____	_____
.4) Determine that all required costs have been allocated to the contracts. Note the expanded requirement to capitalize costs similar to the uniform capitalization rules.	_____	_____	_____
.5) Consider electing the simplified method of allocating costs, whereby fewer costs are taken into account, to determine the degree of contract completion.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR</u> <u>EXPLANATION</u>
.6) Consider electing the modified percentage of completion method, whereby the recognition of income and accounting for costs is deferred until the first tax year in which at least 10% of the estimated total contract costs have been incurred as of the end of that year. Note that this election is not available if the simplified method above has been elected.	_____	_____	_____
.7) Upon completion of a contract, determine that the "look-back rule" has been applied to compare actual contract price and costs to previously used estimates and pay/claim interest on the related changes in prior years taxes on Form 8697. Note that certain small contracts are not subject to the "look-back rule."	_____	_____	_____
304) For charitable contributions:			
.1) Inquire if all contributions are to qualified charitable organizations.	_____	_____	_____
.2) Consider the limitation related to contributions of appreciated ordinary income property.	_____	_____	_____
.3) Consider the deduction for more than cost of appreciated capital gains property.	_____	_____	_____
.4) Inquire if adequate contemporaneous documentation was obtained for charitable contributions made of \$250 or more.	_____	_____	_____
.5) Ascertain that minutes document authorization before year end for accrued charitable contributions, and contributions are paid by the 15th day of the 3rd month after the end of the tax year. An election statement and a certified copy of the minutes must be attached to the return.	_____	_____	_____
.6) Determine if Form 8283 is required for non-cash gifts.	_____	_____	_____
305) Inquire if fringe benefits for more than 2% shareholders claimed as deductions by the S corporation have been reported on the recipient shareholders' W-2s as wages subject to income tax.	_____	_____	_____
306) Inquire whether the S corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions. Consider optional per diem method and note limitation on deductibility of certain nonemployee travel expenses. Note \$25 limit on gifts. Note new \$75 substantiation requirement (see Reg. § 1.274-5T(c)(2)(iii)).	_____	_____	_____
307) Limit deduction for meals and entertainment to allowable percentage. Consider exceptions.	_____	_____	_____
308) Determine the deductibility of club dues. (§ 274(a)(3))	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
309) Determine that expenses allocable to portfolio income have not been deducted on page 1, Form 1120S.	_____	_____	_____
310) Determine if professional fees and/or employee salaries require capitalization.	_____	_____	_____
311) If taxpayer maintains a profit sharing plan and has not contributed the maximum contribution for each taxable year beginning prior to 1987, calculate the unfunded contribution carryover amount.	_____	_____	_____
312) Determine that specific write-off method is used for bad debts.	_____	_____	_____
313) Review partially worthless debt for write-off under Temp. Reg. § 1.166-3T.	_____	_____	_____
314) Officers and shareholders:			
.1) Determine the ownership of life insurance policies and the proper treatment of related expenses.	_____	_____	_____
.2) Determine deductibility of disability insurance premiums.	_____	_____	_____
.3) If there were any accruals of interest, compensation or other expenses payable to a shareholder or other related parties, determine that for tax purposes the deduction is deferred until the year in which it is includible in income of the shareholder.	_____	_____	_____
.4) Consider if compensation to shareholders who perform substantial services for the corporation was reasonable.	_____	_____	_____
.5) Review officer/shareholder compensation for reasonableness.	_____	_____	_____
315) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
316) Interest considerations:			
.1) Treat amortizable bond premium (for bonds acquired after 1987) as an offset to interest income.	_____	_____	_____
.2) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on beneficial owners and key employees to the extent that the total of such loans exceeds \$50,000. Note phaseout rules under 1996 HIPAA.	_____	_____	_____
.3) Determine that the proper allocations have been made by type (trade or business, investment, passive activity, tax-exempt expenditures, etc.).	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.4) Determine that proper allocation of interest expense has been made if the proceeds of a loan were used for more than one purpose.	_____	_____	_____
.5) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
.6) Determine if there is an allowable interest deduction related to deferred compensation agreements.	_____	_____	_____
.7) Capitalize interest and carrying charges on straddles (§ 263(g)).	_____	_____	_____
317) Consider limitations on deducting expenses related to federally tax exempt income. Note that these expenses may be deductible at the state level if the related income is state taxable.	_____	_____	_____
318) Determine that certain lobbying expenses are not deducted. Note exceptions.	_____	_____	_____
319) Inquire if dues include nondeductible lobbying expenses.	_____	_____	_____
320) Determine if compensation deductions are allowable with respect to current or past transfers of property that are no longer subject to a substantial risk of forfeiture (§ 83), or with respect to disqualifying dispositions of stock under incentive stock options (§ 422), or employee stock purchase plans (§ 423).	_____	_____	_____
321) Determine that retirement plan contributions have been calculated using the eligible compensation limit per RRA '93 and were timely made. Obtain a listing of dates and amounts of payments.	_____	_____	_____
322) Determine if deductions should be reduced by credits claimed.	_____	_____	_____
323) Determine proper treatment of environmental clean-up expenses.	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) For assets placed in service during the current year:			
.1) Consider § 179 election to expense qualifying assets.	_____	_____	_____
.2) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property placed in service after June 30, 1993.	_____	_____	_____
.3) Determine the depreciable basis of each asset.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.4) Determine the property class, recovery period and depreciation method for each asset. Note changes in recovery periods for certain non-residential real property acquisitions after May 13, 1993. (Rev. Procs. 87-56, 88-22 and RRA '93).	_____	_____	_____
.5) Determine the applicable convention (half-year, mid-quarter or mid-month).	_____	_____	_____
.6) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period. (RRA '93).	_____	_____	_____
.7) Consider 36-month depreciation rules for software.	_____	_____	_____
.8) Consider reduced depreciable lives for real estate improvements and special use structure.	_____	_____	_____
.9) Consider electing the Alternative Depreciation System (straight line over an ADS recovery period) for qualifying General Depreciation System property.	_____	_____	_____
.10) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.	_____	_____	_____
.11) If property is leased to a tax-exempt entity, consider the possible need to use the ADS.	_____	_____	_____
.12) Consider depreciation limitations for IDB financed property, and certified historic structures for which a tax credit was taken.	_____	_____	_____
.13) If a short year, determine that Rev. Proc. 89-15 is followed.	_____	_____	_____
.14) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2 (d)(3).	_____	_____	_____
.15) Determine if interest is payable under look-back method where income forecast depreciation method is used (SBJPA 1996).	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods. See RRA '93.	_____	_____	_____
403) Consider the provision of Rev. Proc. 96-31 to rectify prior year claims of less than allowable depreciation or amortization.	_____	_____	_____
404) Determine if leased property/equipment should be capitalized.	_____	_____	_____
405) Consider anti-churning rules.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
406) For listed property (e.g., cellular phones, autos, computers, airplanes, boats):			
.1) For autos, consider the maximum allowable under the luxury auto rules.	_____	_____	_____
.2) For autos, determine limitation if the business usage is 50% or less.	_____	_____	_____
.3) Determine limitations for all other mixed-use property, if the business usage is 50% or less.	_____	_____	_____
.4) Inquire if the taxpayer has kept the required records indicating the business and personal use of property.	_____	_____	_____
5) Determine recapture if the business usage is 50% or less.	_____	_____	_____
407) Form 4562 (if required):			
.1) Reconcile depreciation expense to supporting schedules.	_____	_____	_____
.2) Complete questions regarding personal use of listed property.	_____	_____	_____
.3) If the costs were incurred during the current year, determine that amortizable items are separately stated and the proper Code section cited.	_____	_____	_____
408) Consider state depreciation, if different.	_____	_____	_____
409) Consider federal and state AMT depreciation.	_____	_____	_____
410) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture.	_____	_____	_____
500) TAX COMPUTATION AND CREDITS			
501) Tax on excess net passive income:			
.1) Determine if passive investment income is greater than 25% of gross receipts and the S corporation has earnings and profits from any C years.	_____	_____	_____
.2) Consider election to designate distributions as deemed out of earnings and profits. (§ 1368(e)(3)).	_____	_____	_____
.3) Consider election to forego previously taxed income. (§ 1.1368-1(f)(4))	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
502) Tax on "built-in" gains - applies to prior C corporations that filed S status election subsequent to 1986. Consider the following:			
.1) Compute tax at maximum corporate rate for the net recognized gains for the taxable years (not to exceed Subchapter C taxable income as adjusted) on the disposition of assets. (§ 1374).	_____	_____	_____
.2) If S election was made after March 30, 1988, determine built-in gain carryover, if applicable.	_____	_____	_____
.3) Consider tax on capital gains.	_____	_____	_____
.4) Gasoline and special fuel credits as well as the following carryforwards from C years may be used to reduce built-in gains tax:			
(a) Net operating loss.	_____	_____	_____
(b) Capital losses.	_____	_____	_____
(c) Business credits.	_____	_____	_____
(d) Minimum tax credits.	_____	_____	_____
503) Consider tax on LIFO recapture for C corporations electing S status.	_____	_____	_____
504) Consider tax payable by the corporation from recomputing a prior year investment tax credit as a result of the early disposition of assets acquired in C corporation years.	_____	_____	_____
505) Confirm the amounts and dates of any federal, state and local estimated tax deposits for the year, prior year overpayments applied, backup withholding and extension payments.	_____	_____	_____
506) Consider federal and state estimated tax requirements and related electronic filing requirements.	_____	_____	_____
507) Determine if the corporation is eligible for tax credits such as:			
.1) Foreign tax credit.	_____	_____	_____
.2) Investment tax credit (rehabilitation and transition, energy and reforestation).	_____	_____	_____
.3) Credit for increasing research activities. See SBJPA 1996 extension through May 31, 1997.	_____	_____	_____
.4) Enhanced oil recovery credit.	_____	_____	_____
.5) Credit for producing fuels from nonconventional source.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.6) Gasoline and special fuels credit.	_____	_____	_____
.7) Low income housing credit.	_____	_____	_____
.8) Disabled access credit.	_____	_____	_____
.9) Qualified electric vehicle credit (Form 8834).	_____	_____	_____
.10) Renewable electricity production credit (Form 8835).	_____	_____	_____
.11) Credit for employer social security taxes paid on certain employee cash tips (Form 8846).	_____	_____	_____
.12) Credit related to wage and health insurance costs for qualified Indian employees (Form 8845).	_____	_____	_____
.13) Credit for contributions to certain community development corporations (Form 8847).	_____	_____	_____
.14) Credit for alcohol used as fuel.	_____	_____	_____
.15) Empowerment zone employment credit (Form 8844).	_____	_____	_____
.16) Work Opportunity Credit for eligible employees after September 30, 1996 (SBJPA 1996).	_____	_____	_____
.17) Credit for qualified clinical testing expenses (Orphan Drug Credit), paid or incurred after June 30, 1996 and associated carrybacks and carryovers (SBJPA 1996).	_____	_____	_____
508) If taxpayer is part of a controlled group, consider special allocation rules under §§ 1561 and 1563. Attach apportionment schedules.	_____	_____	_____
600) SHAREHOLDER INFORMATION			
601) Shareholder allocation/limitation:			
.1) Determine that items of income, deductions, credits, etc., are allocated to the shareholders on a per-share, per-day basis.	_____	_____	_____
.2) If stock transfers occurred during the year which resulted in a termination of a shareholder's interest, consider allocations based on time of actual occurrence. Attach the shareholder consent and statement of election. (Prop. Reg. § 1.1377-1)	_____	_____	_____
602) Shareholder distribution/basis computations:			
.1) Determine that equity increases and decreases (Schedule M) are properly segregated among:			
(a) Accumulated adjustment account.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(b) Other adjustment account.	_____	_____	_____
(c) Shareholders undistributed PTI.	_____	_____	_____
.2) Determine that distributions exceeding accumulated adjustment account for S corporations with earnings and profits from C or pre-1983 S years are reported (Form 1099-DIV) to shareholders as dividends to the extent of accumulated earnings and profits.	_____	_____	_____
.3) Determine that gain is recognized and allocated to each shareholder for distribution of appreciated property.	_____	_____	_____
603) Consider Shareholder Basis Practice Guide.	_____	_____	_____
700) K-1 INFORMATION			
701) Determine that proper reporting and separate stating have been provided for all appropriate items such as:			
.1) Ordinary trade or business activities.	_____	_____	_____
.2) Rental activities.	_____	_____	_____
.3) Portfolio income and related deductions.	_____	_____	_____
.4) Passive activity data (note elections). See Passive Activity Checklist.	_____	_____	_____
.5) Self-charged interest. Note Prop. Reg. § 1.469-7 allowing for possible recharacterization of interest income. (See Passive Activity Checklist.)	_____	_____	_____
.6) All items that affect shareholder basis calculations (e.g., nondeductible items and nontaxable income).	_____	_____	_____
.7) Charitable contributions including copy of Form 8283 when required.	_____	_____	_____
.8) Shareholder loan repayments.	_____	_____	_____
.9) Distributions.	_____	_____	_____
.10) At risk information.	_____	_____	_____
.11) Credit information.	_____	_____	_____
.12) Interest incurred in the production of property that may have to be capitalized at the shareholder level (Notice 88-99).	_____	_____	_____
.13) Other passthrough items (e.g., intangible drilling costs, depletion).	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
702) Segregate tax preference and adjustment items and report on the appropriate lines.	_____	_____	_____
703) Prepare schedules that reflect information to allow each shareholder to compute credit recapture.	_____	_____	_____
704) Determine that information relating to interest expense on debt-financed distributions to shareholders has been provided (Notice 89-35).	_____	_____	_____
800) OTHER REQUIREMENTS			
801) Consider elections and statements such as:			
.1) Election to amortize organization expense.	_____	_____	_____
.2) Election to amortize business start-up costs.	_____	_____	_____
.3) Cash vs. accrual method.	_____	_____	_____
.4) Section 351, statement of transferred assets.	_____	_____	_____
.5) Method for valuation of inventory.	_____	_____	_____
.6) Research and experimental cost election.	_____	_____	_____
.7) Exception from economic performance for recurring items. Under final regulations, the election for any item(s) incurred for the first time is made by accounting for the item(s) under the recurring method on a timely filed tax return.	_____	_____	_____
.8) If a distribution or technical termination has occurred in a partnership consider making a § 732(d) election.	_____	_____	_____
.9) If this is the first year the taxpayer has incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception. (Rev. Proc. 92-28).	_____	_____	_____
.10) Consider the option to treat current year qualifying disaster losses on appropriate preceding year tax return.	_____	_____	_____
802) Determine if expenditures were incurred that are eligible for the Disabled Access Credit (Form 8826). If the taxpayer does not qualify for the credit or has expenditures in excess of the credit, consider making a § 190 election to expense the cost.	_____	_____	_____
803) Cross reference the following items:			
.1) Schedule L beginning balances to prior year's ending balances.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Schedule M beginning equity accounts to prior year's ending balance.	_____	_____	_____
.3) Detail listings of Schedule L beginning balances to prior year's detail listings of ending balances.	_____	_____	_____
804) If the corporation was a party to an "applicable asset acquisition" (transfer of assets that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met. (Form 8594)	_____	_____	_____
805) Determine that book/tax accounting method differences related to Schedule M are documented in the workpaper files.	_____	_____	_____
806) Consider § 6662 accuracy-related penalty. If this penalty could result from any income, deduction loss or credit item which causes a substantial change in the shareholder's return and causes the preparer to rise to the level of preparer of the shareholder's return:			
.1) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275 or 8275R).	_____	_____	_____
.2) Consider advising the taxpayer, in writing, of the penalty.	_____	_____	_____
807) Prepare state and local tax returns (see Nexus Practice Guide). Consider:			
.1) Recognition of "S" status.	_____	_____	_____
.2) State modification requirements.	_____	_____	_____
.3) State withholding requirements on income allocated to non-resident shareholders.	_____	_____	_____
.4) Information to allow shareholder to file the necessary state tax returns.	_____	_____	_____
.5) Composite filing on behalf of nonresident shareholders.	_____	_____	_____
.6) Compile apportionment data for multistate taxpayer.	_____	_____	_____
808) Attach extension requests.	_____	_____	_____
809) Complete and attach Form 5452 to report nondividend distribution (i.e., distributions in excess of earnings and profit).	_____	_____	_____
810) Inquire if the corporate minute book has been updated.	_____	_____	_____
811) Inquire if the required 5500 series forms have been filed for retirement plans covered by this period.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
812) Inquire if the required 5500 series forms have been filed for cafeteria plans and welfare benefit plans (e.g., medical benefits, life insurance, disability or death benefit plans that have more than 100 participants).	_____	_____	_____
813) Advise the S corporation that any unpaid retirement plan contribution must be made before the due date of the return including extension.	_____	_____	_____
814) Information returns:			
.1) Inquire whether the S corporation has filed all required information returns (1098 and 1099 series) and whether the value of the personal use of employer property, expense reimbursements under "unaccount-able plans," and 401(k) deferred compensation information has been included in employees' W-2s.	_____	_____	_____
.2) Inquire if the taxpayer has complied with magnetic media filing requirements for 1099s and W-2s.	_____	_____	_____
.3) Inquire if additional items subject to employer FICA such as 401(k) deferrals, employer provided excess group term life insurance, all cash tips, etc., have been properly reported.	_____	_____	_____
.4) Determine that reimbursement of employee moving expenses are properly reported (RRA '93).	_____	_____	_____
.5) Inquire whether club dues, spouse travel, etc., is treated as compensation and included on employee's W-2.	_____	_____	_____
815) Inquire as to whether employment taxes were timely deposited.	_____	_____	_____
816) Compare net income or loss to projections.	_____	_____	_____
817) Determine that related party transactions are properly reported on all available returns.	_____	_____	_____
818) Consider informing client of requirement to file Form 8300 for certain payments received exceeding \$10,000.	_____	_____	_____
819) Determine if Form TD F 90-22.1 is needed to report foreign financial accounts.	_____	_____	_____
820) If the S corporation is a partner in a partnership, consider § 465 at risk and/or § 704(d) basis rules.	_____	_____	_____
821) If the corporation sells an interest in a partnership that has § 751(a) assets, attach the required statement under Reg. § 1.751-1(a)(3).	_____	_____	_____
822) Note tax planning suggestions.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1996 - FORM 1120S

COMMENTS OR EXPLANATIONS

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1996 - FORM 5500 SERIES

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Verify if the current plan document is on file. Note the date of the latest amendment to the plan and the date of the latest plan document restatement.	_____	_____	_____
102) Verify that plan documents and amendments were signed and approved by proper persons, noting signature date.	_____	_____	_____
103) Review the plan sponsor/employer name, address, plan year, identification number, telephone number, business code, and CUSIP number. Note changes.	_____	_____	_____
104) Review the name, address, identification number and telephone number of the plan administrator if they are different from those of the plan sponsor. Note changes.	_____	_____	_____
105) Verify that a copy of IRS determination letter (if applicable) is on file. Determine whether any plan amendments have been adopted since the date of the latest determination letter.	_____	_____	_____
106) Review prior year returns, review memos, workpapers and correspondence files.	_____	_____	_____
107) Review plan name, effective date, plan number; determine if the plan name as shown on the plan document is the same as shown on Form 5500 for the prior year.	_____	_____	_____
108) If the plan is a pension benefit plan and has been examined by the Internal Revenue Service or Department of Labor:			
.1) Obtain copies of the examination report.	_____	_____	_____
.2) Verify that examination adjustments have been entered on the plan's records.	_____	_____	_____
.3) If any examination adjustments affect the sponsor's income tax returns, consider preparation of amended returns for all tax years affected, or advise preparer of recommended change.	_____	_____	_____
109) If the plan sponsor has changed its tax year-end, determine if the plan year has been, or should be, changed to correspond to the sponsor's new tax year.	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1996 - FORM 5500 SERIES

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
110) Determine if the employer is a member of a controlled group of corporations or a member of a group of businesses under common control.	_____	_____	_____
111) Determine if the plan is subject to the multiemployer or multiple employer plan filing requirements.	_____	_____	_____
112) Review the plan document or summary plan description to identify benefits provided by or allowed under the plan (i.e., welfare benefits, fringe benefits, or pension benefits, participant-directed account plans, master trust, or cash or deferred arrangements).	_____	_____	_____
113) Inquire if administrator of a pension benefit plan has a file of beneficiary designations and participant and spousal consent forms for benefit options. (I.R.C. § 417(e))	_____	_____	_____
114) Determine whether there are reporting requirements for investment arrangements filing directly with the Department of Labor:			
.1) Common/Collective Trust or Pooled Separate Account.	_____	_____	_____
.2) Master Trust.	_____	_____	_____
.3) 103-12 Investment Entity.	_____	_____	_____
115) Determine whether the plan holds assets that have a fair market value that is not readily determinable and, if so, whether an appraisal by an independent third party appraiser is appropriate.	_____	_____	_____
200) DETERMINE THE APPROPRIATE FORMS TO FILE			
201) Determine if the plan qualifies for exclusion from filing. Consider Department of Labor notification.	_____	_____	_____
202) If required to file, determine which one of the following to file:			
.1) Form 5500	_____	_____	_____
.2) Form 5500-C (first and final year and every third year)	_____	_____	_____
.3) Form 5500-R (can not be used if this is the plan's first or final year)	_____	_____	_____
.4) Form 5500-EZ.	_____	_____	_____
203) Determine if additional forms are required or would be beneficial such as:			
.1) Schedule A - Insurance Information.	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1996 - FORM 5500 SERIES

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Schedule B - Actuarial Information.	_____	_____	_____
.3) Schedule C - Service Provider and Trustee Information.	_____	_____	_____
.4) Schedule E - ESOP Annual Information.	_____	_____	_____
.5) Schedule F - Fringe Benefit Plan Annual Info Return.	_____	_____	_____
.6) Schedule G - Financial Schedules.	_____	_____	_____
.7) Schedule P - Annual Return of Fiduciary of Employee Trust.	_____	_____	_____
.8) Schedule SSA - Annual Registration Statement Identifying Separated Participants with Deferred Vested Benefits.	_____	_____	_____
204) Determine if other attachments are required, such as:			
.1) Accountant's opinion, financial statements.	_____	_____	_____
.2) Form 5558 - Extension of Time to File (or sponsor's income tax extension form if the automatic extension provisions apply).	_____	_____	_____
.3) Department of Labor filing attachments.	_____	_____	_____
205) Determine that Pension Benefit Guaranty Corporation Form 1 has been filed for a defined benefit pension plan.	_____	_____	_____
.1) Determine the appropriate plan year for which the filing is made (Form 1 is filed for the current year; Form 5500 for the preceding plan year).	_____	_____	_____
.2) Determine the due dates for Form 1 and for installment premium payments.	_____	_____	_____
.3) Determine if plan is subject to variable rate premiums.	_____	_____	_____
300) SPECIFIC PLAN CHARACTERISTICS			
301) Determine coverage requirements.			
.1) Review the plan's § 410 coverage information.	_____	_____	_____
(a) Determine that either the ratio percentage test or the average benefit test has been passed, or that an exception applies.	_____	_____	_____
(b) Determine if the plan is passing coverage under the substantiation guidelines. If the coverage test date is the last day of the plan year, verify that the figure for employees			

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1996 - FORM 5500 SERIES

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
participating at the end of the plan year is consistent with the year-end participant figure in the participant census question.	_____	_____	_____
(c) Determine if all employees of the sponsor are included as the starting point for testing purposes.	_____	_____	_____
(d) Determine whether any employees may be excluded from testing consideration due to:			
(i) their failure to meet the plan's age or service requirements;	_____	_____	_____
(ii) their being collectively bargained employees;	_____	_____	_____
(iii) their being nonresident aliens who received no earned income from United States sources; or	_____	_____	_____
(iv) their having terminated after working less than 500 hours during the plan year.	_____	_____	_____
(e) Assure that leased employees have been properly considered.	_____	_____	_____
(f) Determine whether highly compensated employees have been properly identified.	_____	_____	_____
.2) Determine if separate lines of business, aggregation, disaggregation, or restructuring rules apply.	_____	_____	_____
302) Determine if the plan contains a cash or deferred arrangement.	_____	_____	_____
303) Determine if the plan is integrated with social security or railroad retirement, and if so, determine that permitted disparity requirements have been met.	_____	_____	_____
304) Ascertain the plan's funding and benefit arrangements.	_____	_____	_____
305) Determine if the plan was involved in a merger or consolidation into another plan or an asset or liability transfer during the plan year. If so:	_____	_____	_____
.1) Determine the name of the other plan(s) involved, the EI number of the sponsor(s) and the plan number(s); and	_____	_____	_____
.2) Determine whether Form(s) 5310-A was filed.	_____	_____	_____
306) Determine if the plan was established pursuant to one or more collective bargaining agreements, and if so, enter the appropriate six-digit LM number(s).	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1996 - FORM 5500 SERIES

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
307) Determine if the plan is subject to bonding requirements, and if so, the amount of fidelity bond covering the plan and the name of the bonding surety company.	_____	_____	_____
308) Determine if any person who rendered services to the plan received \$5000 or more in compensation from the plan during the plan year, and if so, complete Schedule C.	_____	_____	_____
309) Determine if any service provider was terminated during the plan year, and if so, provide the necessary information on Schedule C.	_____	_____	_____
310) Consider preparing Schedule G if during the plan year the plan:			
.1) Had assets held for investment purposes, including those both acquired and disposed of within the plan year.	_____	_____	_____
.2) Had loans or fixed income obligations in default or that were considered uncollectible.	_____	_____	_____
.3) Had leases that were in default or that were considered uncollectible.	_____	_____	_____
.4) Had transactions or a series of transactions in excess of 5% of the current value of plan assets.	_____	_____	_____
.5) Engaged in nonexempt transactions with parties-in-interest.	_____	_____	_____
311) Determine if the plan was top-heavy at any time during the last five plan years:	_____	_____	_____
.1) Determine whether key employees have been properly identified.	_____	_____	_____
.2) Determine whether the family aggregation rules have been applied properly.	_____	_____	_____
.3) If the plan is top-heavy, determine whether top-heavy minimum benefit provisions and top-heavy vesting requirements have been applied properly.	_____	_____	_____
312) Determine that annual compensation of each participant taken into account does not exceed current year limitation.	_____	_____	_____
313) Determine if the plan acquired individual whole life contracts during the plan year.	_____	_____	_____
314) Determine if the employer/sponsor maintains other qualified pension benefit plans.	_____	_____	_____
315) Determine if the plan is a master, prototype or regional prototype plan.	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1996 - FORM 5500 SERIES

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
316) Determine the number of participants as follows:			
.1) Fully vested, partially vested and non-vested.	_____	_____	_____
.2) Retired or separated receiving benefits or entitled to future benefits.	_____	_____	_____
.3) Deceased participants whose beneficiaries are receiving or are entitled to receive benefits.	_____	_____	_____
.4) Participants with account balances.	_____	_____	_____
.5) Participants who terminated employment before fully vested.	_____	_____	_____
400) REPORTING FINANCIAL ACTIVITY			
401) Prepare a reconciliation of contributions made to a qualified retirement plan, deductions claimed on the sponsor's income tax return, and contributions recorded by the plan according to the trustee's records.	_____	_____	_____
402) Identify contributions (designated as contributions for the plan year) made after the plan year end, but before the due date of the employer's income tax return, including extensions of time to file.	_____	_____	_____
403) In the case of a defined benefit plan:			
.1) Review Schedule B and determine whether there is a funding deficiency, and if so, advise the plan sponsor.	_____	_____	_____
.2) Confirm that the contributions shown on Schedule B correspond to the contributions made for the plan year.	_____	_____	_____
404) Prepare Form 5330 (relating to excise tax) if there is an accumulated funding deficiency or a nondeductible contribution to a qualified plan.	_____	_____	_____
405) Determine if the plan generates \$1,000 or more of unrelated business income and must file Form 990T. Inquire whether unrelated business income has been earned by a pass-through entity in which the plan has invested.	_____	_____	_____
406) Determine if there has been any reversion of plan assets to the employer, and if so, prepare Form 5330.	_____	_____	_____
407) Determine whether immediate distributions to plan participants and beneficiaries are in compliance with the \$3,500 <i>de minimis</i> rules and related plan provisions.	_____	_____	_____
408) Determine that contributions made or benefits accrued during the plan year are in compliance with I.R.C. § 415 limits.	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1996 - FORM 5500 SERIES

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR</u> <u>EXPLANATION</u>
409) Determine if the plan has made distributions of benefits to participants and beneficiaries as prescribed by the minimum distribution requirements of I.R.C. § 401(a)(9).	_____	_____	_____
410) Determine that, in the case of plan distributions with respect to married participants, the joint and survivor annuity requirements and preretirement survivor annuity requirements of I.R.C. §§ 401(a)(11) and 417 have been met.	_____	_____	_____
411) Determine that written explanations regarding rollover-eligible distributions have been provided in accordance with I.R.C. § 402(f).	_____	_____	_____
412) Determine that income tax withholding requirements of I.R.C. § 3405 (and applicable state or local income tax withholding requirements) have been met with respect to distributions not rolled over to an eligible retirement plan, and that Form 945 has been filed.	_____	_____	_____
413) Determine if the plan is required to file information returns for distributions, retirement pay or P.S. 58 costs.	_____	_____	_____
414) Determine if refunds of contributions were required to pass the ADP/ACP test.	_____	_____	_____
.1) If so, determine if they were made within two and one half months after the close of the plan year.	_____	_____	_____
.2) If not, prepare Form 5330.	_____	_____	_____
500) PENALTIES			
501) Determine the correct due date of the return. Failure to timely file a return is subject to a penalty of \$25 per day (up to \$15,000).	_____	_____	_____
502) Consider other applicable penalties, such as:			
.1) Failure to file a registration statement (Schedule SSA) (\$1 per day up to \$5,000).	_____	_____	_____
.2) Failure to file an actuarial statement (Schedule B) (\$1,000).	_____	_____	_____
.3) Failure to file a complete return, such as failure to complete all applicable information (up to \$1,000 per day).	_____	_____	_____
.4) Failure to report a change of plan status (\$1 per day up to \$1,000).	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1996 - FORM 5500 SERIES

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
600) OTHER REQUIREMENTS			
601) Consider notifying the Plan Administrator of requirements related to:			
.1) Distribution to participants of an appropriate summary annual report.	_____	_____	_____
.2) The availability of the current summary plan description and distribution to participants on a timely basis.	_____	_____	_____
.3) Preparation and distribution of the statements of participants' accrued benefits.	_____	_____	_____
.4) Preparation and distribution of statements of deferred vested benefits to separated employees.	_____	_____	_____
602) Determine that summary plan description has been filed with the Department of Labor.	_____	_____	_____
603) If the employer maintains a profit-sharing plan or stock bonus plan and has not made the maximum contribution for each year, calculate the unfunded pre-1987 contribution carryforward amount.	_____	_____	_____
604) In the case of a qualified plan with loan provisions, ascertain that all loans were made in accordance with plan provisions, and in particular were in compliance with:			
.1) the five year requirement (I.R.C. § 72(p)(2)(B));	_____	_____	_____
.2) the dollar limitations (I.R.C. § 72(p)(2)(A));	_____	_____	_____
.3) the quarterly amortization requirement (I.R.C. § 72(p)(2)(C));	_____	_____	_____
.4) the spousal consent requirement (I.R.C. § 417(a), ERISA § 205(c), Reg. § 1.401(a)-20, Q&A 24);	_____	_____	_____
.5) the reasonably equivalent availability requirement (I.R.C. § 4975(d)(1)(A), ERISA § 408(b)(1)(A));	_____	_____	_____
.6) the reasonable rate of interest requirement (I.R.C. § 4975(d)(1)(D), ERISA § 408(b)(1)(D)); and	_____	_____	_____
.7) the adequate security requirement (I.R.C. § 4975(d)(1)(E), ERISA § 408(b)(1)(E)).	_____	_____	_____
605) Determine that plan loans were not made to sole proprietors, certain partners or shareholders unless the nondiscrimination requirements are met. (I.R.C. § 4975)	_____	_____	_____

EMPLOYEE BENEFIT PLAN/REPORT CHECKLIST
1996 - FORM 5500 SERIES

COMMENTS OR PLANNING

STATE REVENUE DEPARTMENT LISTING

NOTES

Alabama

Department of Revenue
Income Tax Division
P.O. Box 327410
Montgomery, AL 36132-7410
(334) 242-1000

Alaska

Department of Revenue
State Office Building
P.O. Box 110420
Juneau, AK 99811-0420
(907) 465-2320
www.revenue.state.ak.us

Arizona

Department of Revenue
Attention: Forms
1600 West Monroe Street
Phoenix, AZ 85007-2650
(602) 542-4260

Arkansas

Department of Finance and Administration
Revenue Division
P.O. Box 8055
Little Rock, AR 72203
(501) 682-1100

California

Franchise Tax Board
Tax Forms Request
P.O. Box 942840
Sacramento, CA 94240-0070
(800) 852-5711
www.ftb.ca.gov

Colorado

Colorado Department of Revenue
1375 Sherman Street
Denver, CO 80261
(303) 232-2416
www.state.co.us

Connecticut

Department of Revenue Services
State Tax Department
25 Sigourney Street
Hartford, CT 06106
(860) 297-4753

Delaware

Department of Finance
Division of Revenue
Delaware State Building
820 N. French Street
Wilmington, DE 19801
(302) 577-3300
www.state.de.us/govern/agencies/revenue/revenue.htm

Florida

Department of Revenue
Supply Department
168-A Blountstown Highway
Tallahassee, FL 32304
(904) 922-9645
1-800-352-3671

Georgia

Income Tax Unit
Department of Revenue
P.O. Box 38007
Atlanta, GA 30334
(404) 656-4293 or 4071/4674

Hawaii

First Taxation District
P.O. Box 259
Honolulu, HI 96809
(800) 222-3229
www.hawaii.gov/icsd/tax/tax.htm

Idaho

State Tax Commission
P.O. Box 36
Boise, ID 83722
(208) 334-7789

Illinois

Illinois Department of Revenue
101 W. Jefferson
Springfield, IL 62794
(800) 356-6302 or (217) 782-3336
www.revenue.state.il.us

Indiana

Indiana Department of Revenue
Taxpayer Services Division
Indianapolis, IN 46206
(317) 232-2240
www.ai.org/dor

Iowa

Iowa Department of Revenue and Finance
Taxpayer Services Section
P.O. Box 10457
Des Moines, IA 50306
(515) 281-3114
www.state.ia.us/government/drf/index.html

Kansas

Department of Revenue
Division of Taxation
Taxpayer Assistance Bureau
P.O. Box 12001
Topeka, KS 66612-2001
(913) 296-4937
www.ink.org/public/kdor

Kentucky

Revenue Cabinet
Property and Mail Service
200 Fair Oaks Lane
Building 2
Frankfort, KY 40602
(502) 564-3658
revweb@mail.state.ky.us

Louisiana

Department of Revenue
P.O. Box 201
Baton Rouge, LA 70821
(504) 925-7532
www.rev.state.la.us

Maine

Bureau of Taxation
Income Tax Division
State Office Building
Station 24
Augusta, ME 04332
(207) 624-7894
www.state.me.us/taxation

Maryland

Comptroller of the Treasury
Revenue Administration
110 Carroll Street
Annapolis, MD 21411
(410) 974-3951
www.comp.state.md.us

Massachusetts

Massachusetts Department of Revenue
Customer Service Bureau
P.O. Box 7010
Boston, MA 02204
(617) 887-6367
www.magnet.state.ma.us/dor/dorpg.htm

Michigan

Michigan Department of the Treasury
Revenue Administrative Services
The Treasury Building
430 W. Allegan Street
Lansing, MI 48922
(800) 367-6263 or (517) 373-3200

Minnesota

Minnesota Department of Revenue
Mail Station 4450
St. Paul, MN 55146-4450
(800) 652-9094 or (612) 296-3781
www.taxes.state.mn.us

Mississippi

Mississippi State Tax Commission
750 South Galatin
Jackson, MS 39204
(601) 354-6247 or (601) 359-1105

Missouri

Missouri Department of Revenue
P.O. Box 3022
Jefferson City, MO 65105-3022
(800) 877-6881 or (573) 751-5337
www.state.mo.us/dor/tax

Montana

Montana Department of Revenue
Income Tax Division
P.O. Box 5805
Helena, MT 59604
(406) 444-2837
www.mt.gov/revenue/rev.htm

Nebraska

Nebraska Department of Revenue
Box 94818
Lincoln, NE 68509-4818
(800) 747-8177/Jo Voelker or (402) 471-2971
www.nol.org/revenue

Nevada

State of Nevada
Department of Taxation
Capitol Complex
Carson City, NV 89710-0003
(702) 687-4892

New Hampshire

Department of Revenue Administration
State of New Hampshire
61 South Spring Street
Concord, NH 03301
(603) 271-2191
www.state.nh.us/

New Jersey

Division of Taxation
CN269
Trenton, NJ 08646
(609) 292-7613
www.state.nj.us/treasury/taxation/

New Mexico

Taxation and Revenue Department
Revenue Division
P.O. Box 630
Santa Fe, NM 87504-0630
(505) 827-0700
www.state.nm.us/tax

New York City

NYC Department of Finance
Bureau of Tax Collection
25 Elm Place
Brooklyn, NY 11201
(718) 935-6739 or 6000 -- Tax Fax (718) 935-6114

New York State

Department of Taxation and Finance
Taxpayer Service Bureau
W. Averell Harriman Campus
Albany, NY 12227
(800) 462-8100
www.state.ny.us

North Carolina

NC Department of Revenue
P.O. Box 25000
Raleigh, NC 27640
(919) 715-0397

North Dakota

Office of State Tax Commissioner
State Capitol
600 East Boulevard Avenue
Bismark, ND 58505-0599
(701) 328-3017

Ohio

Department of Taxation
Income Tax Division
P.O. Box 2476
Columbus, OH 43266-0076
(614) 433-7750

Oklahoma

Oklahoma Tax Commission
Income Tax Division
2501 Lincoln Boulevard
Oklahoma City, OK 73194
(405) 521-3108

Oregon

Oregon Department of Revenue
955 Center Street, N.E.
Salem, OR 97310
(503) 378-4988
www.dor.state.or.us

Pennsylvania

Commonwealth of Pennsylvania
Department of Revenue
Strawberry Square
Harrisburg, PA 17128
(717) 787-8201
www.revenue.state.pa.us

Rhode Island

Rhode Island Division of Taxation
1 Capitol Hill
Providence, RI 02908-5800
(401) 277-3934
www.tax.state.ri.us

South Carolina

South Carolina Tax Commission
Individual Income Tax Division
P.O. Box 125
Columbia, SC 29214
(803) 737-5000
www.state.sc.us/dor/dor.html

South Dakota

Department of Revenue
700 Governors Drive
Pierre, SD 57501
(605) 773-3311
www.state.sd.us/state/executive/revenue/revenue.html

Tennessee

Department of Revenue
Andrew Jackson State Office Building
500 Deaderick Street
4th Floor
Nashville, TN 37242
(615) 741-4465
www.state.tn.us/revenue

Texas

Comptroller of Public Accountants
State of Texas
111 West 6th
Starr Building
Austin, TX 78701
(512) 463-4600
www.window.state.tx.us

Utah

Utah State Tax Commission
210 North 1950 West
Salt Lake City, UT 84134
(801) 297-2200
www.tax.ex.state.ut.us

Vermont

Vermont Department of Taxes
109 State Street
Montpelier, VT 05609
(802) 828-2515

Virginia

Department of Taxation
Taxpayers Assistance
P.O. Box 1880
Richmond, VA 23282-1880
Attn: Forms Division
(804) 367-8031
www.state.va.us/tax/tax.html

Washington

Department of Revenue
General Administration Building
P.O. Box 47478
Olympia, WA 98504-7478
(360) 786-6100
www.ga.gov/dor/wador.htm

Washington, DC

Government of District of Columbia
Department of Finance and Revenue
300 Indiana Avenue, NW
Room 1046
Washington, DC 20001
(202) 727-6170

West Virginia

State Tax Department
Taxpayer Service Division
P.O. Box 3784
Charleston, WV 25337-3784
(304) 558-3333

Wisconsin

Wisconsin Department of Revenue
Shipping and Mailing Section
P.O. Box 8903
Madison, WI 53708-8903
(608) 266-1961
www.dor.state.wi.us

Wyoming

The State of Wyoming
Revenue Department
Herschler Building
122 West 25th
Cheyenne, WY 82002
(307) 777-7378
www.state.wy.us

Puerto Rico

Commonwealth of Puerto Rico
Department of the Treasury
Internal Revenue Collections Area
Bureau of Income Tax
P.O. Box 2501
San Juan, PR 00902-2501
(809) 721-2020

SAMPLE IRS CORPORATE AUDIT FORMAT

INTRODUCTION

The following questions are samples of those that may be asked during the interview and examination process of tax returns. They are not intended to be all inclusive. Tax examiners for the Internal Revenue Service are encouraged to use their own judgment. As a result, the scope of their examination may be expanded depending on the responses to these general questions. The purpose of these sample questions is to assist in the preparation for an examination. It is advisable that the tax practitioner determine the intent of the questions and prepare accordingly.

The IRS has identified specific MSSP research and development projects and audit technique guides in review and revision. These segments are as follows:

- | | |
|---|--|
| § 936 Corporation | * Health Care |
| Architectural Services | Insurance Agencies |
| Art Dealers | Intermodal Industry (Transport Containers) |
| Attorneys | Jewelry Dealers |
| * Auto Body Shops | * Laundromats |
| * Auto Dealers | Life Insurance |
| Auto Repair Shops | Liquor Stores |
| Bail Bondsmen | Low Income Housing Credits |
| Beauty Shops/Barber Shops | * Mining Activities (Small Scale) |
| Carwashing & Detailing | * Ministers |
| * Check Cashing | * Mobile Cart Vendors |
| Child Care | Nursing/Rest Homes |
| Citrus Industry | Oil and Gas Operators |
| Coal Mining (Excise) | Parking Lots |
| Commercial Banking | Pawn Shops |
| * Construction, General Building Contractor | Petroleum Contamination Clean-up |
| * Construction Industry | * Pizza Parlors |
| Cooperative Housing Corp. | Plastic Surgeons |
| * Eating Places/Restaurants/Bars | * Port Project |
| * Electronic Components | Printing |
| Emergency Care Clinics | Real Estate Agendas/Brokers |
| Employment Tax—Pizza Driver | Real Estate Developers |
| Entertainment Industry: | Recycling |
| – Motion Pictures/Television | * Reforestation |
| – Contracts—Audit Applications | * Rehabilitation Credit |
| * – Foreign Athletes & Entertainers | Rent-to-Own |
| – Theater—Live Performances | * RTC Project (Forgiveness of Debt) |
| * – Individual Form 1040 | Scrap metal |
| Escort Service | Seafood Purchases |
| Extended Warranty Companies | Tobacco |
| Federal Excise Tax, Coal Mining | * Tour Bus |
| Federal Excise Tax, Fuel | Timber Industry |
| Financial Institutions | Timeshare & Homeowners Association |
| * Fishing | Travel Agency |
| Foreign Tourism | Trucking Industry |
| Furniture Manufacturing | Used Auto Dealers |
| * Garment Industry | * W-8 Unreported Income |
| * Grain & Milo Growers | * Wine Industry |
| * Grocery Stores | |

* Review and Revision

These documents are available from the IRS.

SAMPLE IRS CORPORATE AUDIT FORMAT

I. AGENT'S NOTIFICATION TO TAXPAYER/REPRESENTATIVE

Appeal Rights (Pub 1)
Privacy Act Notice (Pub 609)

II. INFORMATION THE REVENUE AGENT MAY REQUEST FROM THE TAXPAYER/REPRESENTATIVE

GENERAL:

Tax returns previously audited and results
Telephone numbers of corporate office and representative office
Properly executed Power of Attorney
Verification of TIN per return
Verification of address per return
Name of tax return preparer and fee charged
Extent services provided by preparer
Copies of tax returns from open tax years not under audit
Copies of externally and internally prepared financial statements
Copies of most recent IRS determination letter for all qualified retirement plans
Copies of any amendments or tentative carrybacks filed in the last three years
Corporate minute book and stock records
Currency Transaction Reports (Form 8300)

CORPORATE OFFICER(S) AND SHAREHOLDERS(S):

Name(s)
Title(s)
Ownership %(s)
Recent changes in ownership
Copies of shareholder(s) individual tax returns for period under audit
S corporation shareholder basis computations.

III. QUESTIONS THE REVENUE AGENT MAY ASK THE TAXPAYER/REPRESENTATIVE

RELATED ENTITIES:

Does the corporation own stock in any other closely held corporation(s)?
Do any shareholders own stock in any other closely held corporations(s)?
Does the corporation own an interest in any other closely held business entity (e.g., partnerships and joint ventures)?

SAMPLE IRS CORPORATE AUDIT FORMAT

BUSINESS HISTORY:

- What are the business activities of the corporation?
- How long has the corporation been in operation?
- When was the corporation formed - was it a new business or was it a continuation of a business conducted in another form?
- What was contributed to capital at incorporation?
- What are the duties of each officer and shareholder?
- Does the corporation conduct operations at any location other than the address on the return? If yes, describe.
- Have there been any unusual or extraordinary events during the last three years (e.g., reorganizations, acquisitions or dispositions, decline in income due to casualty, loss of prime supplier or customers, or other economic business conditions)?
- Does the corporation anticipate any significant expansion or addition of capital improvements?
- Has there been a major expansion or remodeling of the corporate building and/or facilities in recent years?
- Are there any legal actions pending against the corporation?
- What is the corporation's policy relative to dividends?
- Has the corporation engaged in any bartering activity?
- Did the corporation pay any kickbacks either directly or indirectly?

CORPORATE TRANSACTIONS:

- Are sales cyclical?
- Who are the corporation's major suppliers?
- Who are the corporations's major customers?
- Does the corporation extend credit? If so, what are the terms?
- Does the corporation offer discounts? If so, how are they recorded?
- Does the corporation purchase goods on credit?
- Does the corporation normally take advantage of discounts? If so, how are they recorded?
- Did the corporation sell any assets during the year under examination?
- Are all fixed assets shown on the corporate books still in service? If not, what was the disposition of the asset(s)?

PAYROLL AND RELATED:

- What are the company's payroll procedures (e.g., separate bank account, outside agency)?
- How is the compensation of the officers and shareholders determined?
- What method(s) of compensation does the corporation use (e.g., salary, bonus, commission)?
- What is the company's policy relative to bonuses?
- How many full time and part time employees does the corporation employ?

SAMPLE IRS CORPORATE AUDIT FORMAT

Have any employees performed personal services for any officers or shareholders?

To what extent does the corporation use contract labor?

Have all required information returns been filed?

Are any immediate family members or close relatives of the officers or shareholders employed by the corporation?

What fringe benefits are provided to the employees (e.g., health insurance, life insurance, reimbursed travel and moving expense, discount on purchases, profit sharing plan, 401(K) or other retirement plan qualified or unqualified, medical reimbursement plan, other)?

Do the fringe benefits provided to the rank and file employees differ from those provided for shareholders and officers?

Has the corporation filed all required retirement plan returns?

Has the corporation filed all applicable federal employment tax returns?

TRAVEL AND ENTERTAINMENT:

What is the company's policy regarding travel and entertainment reimbursement?

Does the corporation provide shareholders, officers, and/or related family members with any of the following:

- Credit cards?
- Club dues?
- Club memberships?

VEHICLES:

Does the corporation own or lease any automobiles, trucks, RVs, airplanes, boats, or other vehicles?

How are these vehicles used in the business?

Are vehicle usage logs maintained?

Does the corporation restrict the use of these vehicles?

How does the corporation account for personal use of company vehicles?

Does the corporation own any trucks that are subject to the highway use tax?

BANKING

Where does the corporation maintain bank accounts (e.g., checking, savings, certificates of deposit, foreign accounts, money market investments)?

What is the purpose of each account?

What loans were outstanding during the tax year? Describe the purpose(s), terms, and activity for each.

INVENTORY:

What method of valuation does the corporation use?

SAMPLE IRS CORPORATE AUDIT FORMAT

How often is physical inventory taken and by whom?
Does the corporation maintain perpetual inventory records?
Is the cost system integrated into the accounting system?
Do any employees, officers, or shareholders make personal withdrawals from inventories?
To what extent is the company's inventory insured and with whom?
Does the company utilize receiving reports?
How are returned goods handled?
What was the basis for the write down of the company's inventory?
What length of time does it take to process goods from start to finish?

ACCOUNTING SYSTEM:

What type of books and records are maintained (e.g., general ledger, journals, subsidiaries, etc.)?
Who is responsible for the following activities:

- General bookkeeping?
- Cash receipts?
- A/R?
- A/P?
- Recording sales?
- Purchases?

Who is responsible for writing and endorsing checks? Are multiple signatures required?
What method of accounting is used?
Has there been a change in the company's accounting method within the last three years?

INTERNAL CONTROLS:

How are cash sales handled?
Who opens the mail?
Who reconciles the corporate bank accounts?
Who makes the deposits?
How often are deposits made?
What percentage of receipts are deposited?
Does the corporation keep any large amounts of cash on hand?
What percentage of the company's income is received in each of the following forms:

- Checks?
- Cash?
- Charges?
- Other?

At what point are company sales recorded (e.g., date ordered, date invoice cut, date shipped)?
How is a sale accounted for from initial contact with the customer through completion of the transaction?
How does the company record returns and allowances? Are debit memorandums issued?

SAMPLE IRS CORPORATE AUDIT FORMAT

Does the company maintain a petty cash fund? If yes,

- What is the normal balance in this fund?
- What type of disbursements are made from the fund?
- Who approves expenditures?
- How is the fund replenished?

How does the corporation record the expenses it incurs through payment?

Does the corporation make any cash expenditures?

What does the company do with voided checks?

What is the corporation's policy with regard to ageing accounts receivable?

What is the company's policy regarding the write off of uncollectible accounts?

Does the corporation have any scrap sales?

Who authorizes the purchase of major items?

What is the corporate policy for expensing vs. capitalizing items?

Did the corporation record any liabilities which were contingent on some future event?

What cut off procedures does the corporation perform at year end regarding accounts receivable, accounts payable, and inventory?

RELATED PARTY TRANSACTIONS:

Did the corporation have any transactions with a corporate shareholder, officer, or family member?

Did the corporation distribute any assets or liabilities to a corporate shareholder, officer or family member?

Were there any loans or advances to or from a corporate shareholder, officer, or family member?

If yes,

- Is there a signed note?
- What interest rate was charged?
- What repayments have been made?

If there were any loans or advances to or from any related entity, were the transactions handled at arms-length?

Are personal funds of shareholders and officers kept separate from corporate funds?

MINUTE BOOK:

Is a corporate minute book maintained? If so,

- Is it up to date?
- Who is responsible for updating?
- Do the minutes address pension plan contributions?

Are officers' compensation and bonuses approved in the minutes?

Are loans properly considered and approved in the minutes?

Do the minutes address employee bonuses?

Do the minutes address company expansion?

SAMPLE IRS CORPORATE AUDIT FORMAT

OTHER QUESTIONS:

Does the tax return include all income earned by the corporation?

After having had time to review the return since contacted by the IRS, is the taxpayer/ representative aware of any additional deductions, erroneous deductions or any omissions of income contained therein?

If this is an S corporation, which shareholders meet the material participation requirements?

STATE TAX NEXUS PRACTICE GUIDE

The state tax nexus practice guide contains a brief summary of nexus and the issues involved and a checklist of the most frequently asked questions appearing in states' nexus questionnaires. Practitioners should be aware that the weight of interpretation given to specific questions may vary from state to state. The checklist can serve as a practice tool for practitioners in soliciting information from clients and analyzing such information. It is intended to be a broad reference tool and an aid in addressing nexus issues, and is not intended to answer the questions of whether a specific company has nexus in a particular state. It should be noted that there are different nexus standards for the different types of taxes. The laws and policies of each state should be verified for application to specific cases.

Volunteer members of the State and Local Taxation Committee will automatically receive a compilation of nexus checklist questionnaires utilized by each of the following states and a summary of specific nexus attributes unique to each of the states. If you are not a volunteer member of the State and Local Taxation Committee and you would like a copy of this package, please send a self-addressed stamped (\$3 postage) 10x13 envelope to: State Tax Nexus Questionnaires, American Institute of CPAs, 1455 Pennsylvania Avenue, NW, Suite 400, Washington, DC 20004-1081.

NEXUS QUESTIONNAIRES FROM THE FOLLOWING STATES/GROUPS

Arizona	Massachusetts	Pennsylvania
California	Michigan	Rhode Island
Colorado	Minnesota	South Carolina
Connecticut	Missouri	South Dakota
Delaware	Montana	Tennessee
Florida	New Hampshire	Texas
Georgia	New Jersey	Utah
Illinois	New Mexico	Vermont
Iowa	New York	Virginia
Kansas	North Carolina	Washington
Kentucky	North Dakota	West Virginia
Louisiana	Ohio	Wisconsin
Maine	Oklahoma	
Maryland	Oregon	

Northeastern states (CT, DC, ME, NH, NJ, NY, PA)

Southern Association of Tax Administrators (AL, AK, FL, GA, KY, LA, MS, NC, SC, TN, VA, WV)

Multistate Tax Commission National Nexus Program (32 states)

STATE TAX NEXUS PRACTICE GUIDE

Nexus describes the amount and degree of business activity that must be present before a state can tax an entity's income. If a taxpayer has nexus in a particular state, the taxpayer must pay and collect/remit taxes in that state. In general, nexus is created for income tax purposes if an entity derives income from sources within the state, owns or leases property in the state, employs personnel in the state in activities that exceed "mere solicitation," or has capital or property in the state. The amount of activity or connection that is necessary to create nexus is defined by state statute or case law and/or regulation and, consequently, tends to vary from state to state. However, all states are limited by Constitutional principles, judicial doctrine and federal law.

Briefly summarized below are: the federal statute governing "protected" activities within a state, relevant issues from two key U.S. Supreme Court cases concerning nexus, and recent activities of the Multistate Tax Commission (MTC) in this area.

1. Public Law 86-272 (15 U.S.C. § 381)

Nexus for net income tax purposes is not established merely because sales of tangible personal property are solicited within the states. The states are prohibited under Public Law 86-272 from imposing a tax on or measured by net income when an entity's only connection with the state is the solicitation of orders or sales of tangible personal property, and such orders are accepted and shipped or delivered from outside the state. The immunity afforded by this statute does not apply, however, to any corporation incorporated within the taxing state. This immunity only applies for state income tax purposes, and consequently, does not apply to such taxes as sales/use, gross receipts, etc.

Under Public Law 86-272, the only immunity accorded is for the solicitation of orders for the sale of tangible personal property. Thus, the solicitation for the sale of real property, intangible property, or services is not provided immunity under Public Law 86-272 and may cause a taxpayer to have nexus in a state where such solicitation occurs.

The issue of "economic nexus" in the case of service providers with no physical presence in the state remains unresolved.

For more information on the jurisdiction to tax, refer to State Taxation, by Jerome R. and Walter Hellerstein.

2. Physical Presence

Historically, cases brought before the U.S. Supreme Court relating to nexus involved factual situation in which the taxpayer had a degree of physical presence in the state seeking to impose its tax. In *Quill Corp. v. North Dakota*, 112 S.Ct. 1904 (1992), the U.S. Supreme Court ruled the Commerce Clause mandated that, absent action by the U.S. Congress to the contrary, a taxpayer must have some physical presence in a state to be subject to collection responsibility for the state's use tax (*Quill* at

1914). Although *Quill* deals with use tax, the Court's discussion of the general Due Process and Commerce Clause Constitutional principles of nexus opinion sheds some light on their application to franchise and income taxes.

The South Carolina Supreme Court, in *Geoffrey, Inc. v. South Carolina Tax Commission*, 437 S.E.2d 13 (S.C. 1993) held that a Delaware holding company that owned only intangible property used in South Carolina was subject to income tax. The court rejected Geoffrey's claim that it had not purposefully directed its activities toward South Carolina's economic forum and held that by licensing intangibles for use in the state and receiving income in exchange for their use, Geoffrey had the minimum connection and substantial nexus with South Carolina required by the Due Process Clause and the Commerce Clause of the U.S. Constitution. In addition, Geoffrey's receivables were found to have a business situs in South Carolina. The U.S. Supreme Court subsequently denied certiorari in *Geoffrey* (114 S.Ct. 50 (1993)), making the case applicable only in the state of South Carolina. Many states, however, have incorporated through statute or regulation the principles of economic nexus outlined in *Geoffrey* regarding intangibles in the nature of trademarks and trade names. Practitioners with clients having intangibles should review any recent changes in the applicable state laws and regulations in this area.

3. Solicitation

Under Public Law 86-272 (15 U.S.C. § 381), an activity is immune from net income taxation if it consists merely of solicitation of sales of tangible personal property. The term "solicitation" is not defined by Public Law 86-272, however, the U.S. Supreme Court in *Wisconsin Dept. of Rev. v. William Wrigley, Jr. Co.*, 112 S. Ct. 2447 (1992) (Wrigley) interpreted this term. In finding that Wrigley's activities in Wisconsin exceeded the protection of Public Law 86-272, the Court held that the solicitation of orders includes "any explicit verbal request for orders and any speech or conduct that implicitly invites an order." The clear line is the one between those activities that serve no independent business function apart from their connection to the soliciting of orders and those that the company would have reason to engage in anyway but chooses to perform through its in-state sales force. The Court affirmed the *de minimis* principle of Public Law 86-272 in holding that to lose the immunity afforded by Public Law 86-272, the activity must establish a nontrivial additional connection with the taxing state. In the aggregate, though minimal in comparison to Wrigley's total solicitation activities in the state, the non-immune activities exceeded the *de minimis* standard in the aggregate. Practitioners should consider whether activities other than solicitation are more than *de minimis* in a particular state.

4. Multistate Tax Commission (MTC) Guidance to the States

The MTC has issued lengthy guidance under P.L. 86-272: Information Concerning Practices of Multistate Tax Commission States Under Public Law 86-272 (adopted 7/11/86), Statement of Information of Multistate Tax Commission and Signatory States Under Public Law 86-272 as Revised January 22, 1993, and Statement of Information of Multistate Tax Commission and Signatory States Under Public Law 86-272 as Adopted July 29, 1994.

Working together through the MTC, twenty-six states issued Nexus Program Bulletin 95-1 (12/20/95) targeting the computer direct marketing industry. The bulletin takes the position that because in-state repair services are not immune from taxation by reason of P.L. 86-272, the use of independent contractors or other representatives of a computer company to provide such repair services creates nexus for the computer company. Although the nature of the bulletin is informative and educational rather than regulatory, it has been met much opposition from industry and mixed reaction from the states.

In addition, the MTC is working on a draft Nexus Guideline for Application of a Taxing State's Sales and Use Tax to a Remote Seller. The AICPA State and Local Tax Committee commented on the October 25, 1994 draft of these regulations on April 12, 1995. The committee objected to the concept of "deemed physical presence" and the notion that an interest in intangible property could create physical or deemed physical presence. The MTC is currently seeking input from its member states in redrafting these guidelines.

The MTC also assists businesses involved in multistate commerce in voluntarily resolving potential state sales/use and income/franchise tax liabilities where nexus is the central issue. The MTC program acts as a coordinator through which companies may approach 32 member states anonymously and seek resolution of potential liabilities arising from past activities.

Conclusion

The issue of nexus for sales/use and for income tax purposes is a complex one. As evidenced by the nexus questionnaires included in this checklist package, there is a tremendous degree of inconsistency among the states. The large number of court cases in this area highlight the fact that the Due Process and Commerce Clause analysis is largely dependent on the specific facts and circumstances of each case. Among the state court systems, emerging issues, such as agency nexus, affiliate nexus, electronic nexus, and economic nexus, evolve in the ever changing market place. This guide is meant as a broad reference tool in highlighting those areas that the individual states have deemed to create nexus within the state for purposes of subjecting the entity to taxation in the state.

State Tax Nexus Checklist
Frequently Asked Questions on State Nexus Questionnaires

	<u>Yes</u>	<u>No</u>
1. Is the business qualified to do business in the state?	—	—
2. Is the business currently filing with the state (specify type of tax)?	—	—
3. Does the business have an office, agency, warehouse, or other business location owned or leased in the state?	—	—
4. Does the business maintain a telephone answering service in the state?	—	—
5. Does the business own or lease real property in the state?	—	—
6. Does the business own or lease tangible personal property located in the state?	—	—
7. Does the business rent or lease tangible personal property to others who then use the property in the state?	—	—
8. Does the business license intangible property for use in the state?	—	—
9. Does the business license software for use in the state?	—	—
10. Has the business ever executed contracts in the state?	—	—
11. Does the business have employees or representatives who perform any of the following activities in the state:		
a. Solicit with or without authority to approve?	—	—
b. Engage in managerial or research activities?	—	—
c. Secure deposits on sales?	—	—
d. Make collections on regular or delinquent accounts?	—	—
e. Repossess items or property of the business?	—	—
f. Offer technical assistance and training to purchasers of its products before or after the sale?	—	—
g. Repair, service, or replace faulty or damaged goods?	—	—
h. Install or assemble its products?	—	—
i. Visit its customers or users of its products to determine customer or user satisfaction?	—	—
j. Inspect the installations of its product by its customers or users of its product?	—	—
k. Pick up or verify destruction or damaged or returned merchandise from customers or users of its products?	—	—
l. Coordinate delivery of merchandise, whether or not special promotions are involved?	—	—
m. Distribute replacement parts?	—	—

State Tax Nexus Checklist
Frequently Asked Questions on State Nexus Questionnaires

- | | | |
|---|---|---|
| n. Conduct credit investigations or arrange for credit and financing for purchasers of its product? | — | — |
| o. Rectify or assist in rectifying any product, credit, shipping or similar complaint arising from the purchase or use of its products? | — | — |
| p. Service or maintain displays of its products? | — | — |
| q. Accept returned merchandise for customers? | — | — |
| r. Selling of tangible personal property? | — | — |
| s. Make “on the spot” sales of company products? | — | — |
| t. Carry out engineering or design functions? | — | — |
| u. Advise customers or distributors as to minimum inventory levels, remove obsolete, damaged or outdated goods? | — | — |
| v. Process complaints? | — | — |
| 12. Does the business have a standard form of written agreement with sales representatives? If so, please enclosed copy. | — | — |
| 13. Is the business a member of an affiliated group of corporations?
If so, is a consolidated or combined return in the state filed? | — | — |
| 14. Does the business have display merchandise in leased space in the state? | — | — |
| 15. Do employees have samples in the state? If yes, then state the average value thereof. | — | — |
| 16. Does the business reserve the right of inspection of the customer’s facilities or products after delivery? | — | — |
| 17. Does the business provide sales or service manuals to customers, distributors, or agents? | — | — |
| 18. Does the business advertise in the state? If so, list the different advertising media use. | — | — |
| 19. Does the company do any localized advertising (cooperative or otherwise) in the state? | — | — |
| 20. Does the business have any employees or representatives who use their home in state: | | |
| a. As a business address? | — | — |
| b. To receive business callers? | — | — |
| c. To store inventory? | — | — |
| d. To maintain books/records? | — | — |
| e. To maintain company property? | — | — |
| 21. Are employees reimbursed for telephone, fax or utilities expenses? | — | — |

State Tax Nexus Checklist
Frequently Asked Questions on State Nexus Questionnaires

- | | |
|--|-----|
| 22. Are home numbers listed in local advertisements of the business? | — — |
| 23. Do employees of the company solicit orders for the sale of: | |
| a. Real estate? | — — |
| b. Services? | — — |
| c. Intangible property? | — — |
| 24. Does the business perform construction contracts in the state? | — — |
| 25. Is the business listed in any telephone directories in the state? | — — |
| 26. Does the business have any consigned stock of goods in the state? | — — |
| 27. Does the business operate a mobile store in the state? | — — |
| 28. Has the company previously filed income tax returns in the state? | — — |
| 29. Does the company maintain a security interest/mortgage in property until the contract price or amount borrowed has been paid? | — — |
| 30. Do employees either investigate, recommend, or appoint potential dealers, agents, or distributors of the company in the state? | — — |
| 31. Do employees ever check the inventories of customers or distributors in the state? | — — |
| 32. Do employees authorize credits, warrant adjustments or repairs in the state? | — — |
| 33. Does the business have agents or independent contractors selling products in the state? If so, are they forbidden from selling or promoting competitors' services? | — — |
| 34. Does the business give approval to servicing distributors and dealers within the state where customers can have products serviced or repaired? | — — |
| 35. Does the business participate in a partnership, as general or limited partner, which has operations, conducts business, or owns real property in the state? | — — |

OIL AND GAS PRACTICE GUIDE

This practice guide is intended to assist income tax return preparers in reporting the amounts included on Forms 1099 and K-1 with respect to individual taxpayers receiving income from the sale of oil and gas reserves. This guide is intended to benefit practitioners who have little working experience with the reporting of oil and gas income on individual tax returns, and as such does not necessarily include all issues that may arise.

This guide is segmented into two parts. The first is a narrative discussion of certain oil and gas definitions and tax concepts. The second contains specific return applications.

OIL AND GAS PRACTICE GUIDE

I. Types of Oil and Gas Interest and Payments

A. Non Operating Interests

1. Royalty Interests

A royalty interest holder possesses the right to a specific portion (generally expressed as a fraction or a percentage) of the revenue from the sale of oil and gas reserves. The holder of this interest generally is not required to bear any portion of the cost of development or operation of the oil and gas property. However, a royalty interest holder generally must bear his or her share of production taxes including such state and local severance taxes, ad valorem taxes, and gathering and handling charges. Generally, the production taxes assessed against a royalty interest holder are withheld by the purchaser of the oil and gas. Thus, the royalty interest holder generally receives payments from the purchasers which are net of production taxes.

2. Net Profits Interests

A net profits interest holder is entitled to a specific share of the gross production from the property measured by the net profits from the operation of the property. Generally, the costs considered in determining the "net profit" from a property can be distinctly defined with respect to each such interest. If there is no net profit (as defined) from the property, the holder of the net profits interest receives no payments; however, the holder is also not liable to pay for any share of the net loss. Once the property has a net profit (as defined), the holder of the net profits interest receives payments representing his or her share of that net profit amount.

B. Operating Interests

An operating interest (also known as a working interest) constitutes a right to the oil and gas reserves in place that entitles the holder to a specific portion of the revenue arising from the sale of the oil and gas reserves and that is also burdened with the costs of development and operation of the oil and gas property. In addition, like a non operating interest, an operating interest must bear its share of the production taxes. Thus, the operating interest holder generally receives payments from the purchaser which are net of production taxes. In most instances the operating interest holder pays the cost of operating the oil and gas property directly. However such operating costs may also be withheld by the disburser causing the payment to the operating interest holder to be net of such costs.

C. Other Payments

Several other types of payments are commonly made to the holders of oil and gas interests which are not directly made for the sale of oil and gas reserves. Included below is a short description of some of those payments.

1. Lease Bonuses

In many instances, operating interests are leased rather than acquired as a fee interest. Generally, the lessor receives an up-front payment (lease bonus) from the lessee for the right to enter into the lease.

2. Delay Rentals

Often oil and gas mineral interests are held in the form of a lease which has an expiration date. Delay rentals are paid for the privilege of holding the lease prior to the date of development of the underlying reserves. These payments are generally made by the operating interest owner to the lessor.

3. Damages

In some cases, payments (damages) are made to landowners for damages to the land surface or crops on that surface. These payments are generally made by the operating interest owner to the owner of the surface rights.

4. Shut-Ins

In some cases, leases provide for payments of shut-in royalties (shut-ins) where a producing well has been drilled but the underlying reserves are not being produced for some reason. These payments are generally made by the operating interest owner to the lessor.

II. The Depletion Concept

The removal of a mineral from its natural reservoir diminishes the quantity remaining in the reservoirs until the recoverable supply ends. Depletion, for Federal tax purposes, depends not upon production of a mineral but upon its sale. The legislative history of depletion indicates that percentage depletion is intended to allow a tax-free recovery of value (whether or not in excess of basis) so that incentives would exist for exploration and development of new oil and gas reserves.

Only the owner of an economic interest is entitled to depletion on the income derived from production and sale of minerals from a property. The owners of mineral interests, royalties, working interests, net profits interests or other production payments possess an economic interest and are entitled to depletion for tax purposes. The Code provides for two methods of computing the depletion allowance; cost and percentage depletion. The taxpayer is not given an election to compute his depletion one way or the other, but must compute depletion both ways and claim the larger of two sums. An example of depletion schedule is included below. The following descriptions define various depletion terms:

A. Cost Depletion

Depletion computed on the units of production method and limited to the taxpayer's basis in the property. The cost depletion formula is:

$$\left(\frac{\text{Adjusted basis of mineral interest at end of period}}{\text{Units remaining at end of period} + \text{units sold during the period}} \right) \times (\text{Units sold during the year})$$

B. Percentage Depletion (sometimes called Statutory Depletion)

Depletion computed on a predetermined statutory percentage (currently 15%) of gross income according to the I.R.C. § 613A. The depletion allowance is subject to the 100% of net income limitation of the property and the 65% of taxable income limitation of § 613A(d). Treasury Reg. § 1.613-5 addresses the calculation of "net income" from the property for purposes of the 100% limitation. In addition, I.R.C. § 613A(d)(5) excludes amounts received as a lease bonus from eligibility for percentage depletion.

C. Tentative Depletion

The greater of cost or percentage depletion on a property by property basis after the application of the per barrel limitation of I.R.C. § 613A(c) but before the 65% of taxable income limitation of I.R.C. § 613A(d).

D. Allowable Depletion (sometimes referred to as sustained or tax depletion)

The greater of percentage depletion after the application of the 65% of taxable income limitation of I.R.C. § 613A(d) or cost depletion. The amount of depletion deductible on the face of the tax return. The amount serves to reduce the taxpayer's basis in the mineral interest to zero. The deduction is not limited to the basis in the mineral interest.

E. Percentage Depletion on Marginal Production

OBRA '90 increased the percentage depletion rate for qualifying interests in marginal oil and gas wells provided the reference price is less than \$20 per barrel. Marginal production includes crude oil and natural gas produced from a domestic stripper well property and heavy oil from a domestic property. A stripper well property is any oil and gas producing property that produces a daily average of 15 barrels (6 MCF of gas = 1 barrel of oil) or less per well. Heavy oil is oil with a weighted average gravity of 20 degrees API or less, corrected to 60 degrees Fahrenheit.

Depletion Rates for Marginal Production have been as follows:

1992 - 18%
1993 - 19%
1994 - 20%
1995 - 21%
1996 - 20%

F. Example

Depletion Schedule Operating Interests

Lease Name	Gross Income	Severance Tax	LOE	Depreciation	*Allocated Overhead	Net Income Before Depletion	Percentage Depletion (15%)	Cost Depletion	Allowable Depletion
Smith	2,000.00	141.70	250.00	100.00	277.77	1,230.53	300.00	250.00	300.00
Jones	4,000.00	283.40	450.00	125.00	555.56	2,586.04	600.00	700.00	700.00
Russell	10,000.00	708.50	650.00	300.00	1,388.89	6,952.61	1,500.00	1,100.00	1,500.00
Johnson	20,000.00	1,417.00	1,500.00	450.00	2,777.78	13,855.22	3,000.00	4,000.00	4,000.00
Totals	<u>36,000.00</u>	<u>2,550.60</u>	<u>2,850.00</u>	<u>975.00</u>	<u>5,000.00</u>	<u>24,624.40</u>	<u>5,400.00</u>	<u>6,050.00</u>	<u>6,500.00</u>

Overhead Expenses

Rent	2,500.00
Legal & Professional	350.00
Supplies	250.00
Utilities	1,500.00
Insurance	100.00
Auto	300.00
Total	<u>5,000.00</u>

* Overhead allocated = (Total Overhead ÷ Total Gross Income) x (Gross Income from Property)

III. Tax Credits

A. Nonconventional Fuel Credit (I.R.C. § 29)

This non-refundable income tax credit of \$3 per barrel of oil equivalent is available for sales of qualified fuels. The intent of the credit is to give producers of alternative fuels some protection against significant decreases in the average well head price with which alternative fuels typically compete. Thus, the credit is based on the qualified fuels barrel-of-oil equivalence, and phases out as the average wellhead price of domestic oil rises from \$23.50 to \$29.50, adjusted for inflation. This credit is limited to regular tax reduced by other tax credits. It may not be carried forward or back to another year if unused. However, if the allowable credit is limited because of alternative minimum tax, the unused portion may increase the carry forward of credit for prior year's minimum tax as provided by I.R.C. § 53(d). Qualified fuels generally include oil produced from shale and tar sands; gas produced from geopressurized brine, Devonian shale, coal seams, or a tight formation, or biomass; and liquid, gaseous, or solid synthetic fuels produced from coal (including lignite), including such fuels when used as feedstocks. The \$3 per barrel amount is adjusted for inflation each calendar year with one exception. In the case of gas from a tight formation the \$3 amount is not adjusted. The adjusted per barrel credit amount was \$5.76 in 1994 and \$5.83 in 1995. The preceding calendar year's inflation adjustment is required to be published not later than April 1 of each calendar year. Both operating and non operating interest owners may claim this credit.

B. Enhanced Oil Recovery Credit (EORC) (I.R.C. § 43)

Section 43 currently provides a 15% tax credit for certain costs paid or incurred in a qualified enhanced oil recovery project. Only taxpayers owning an “operating interest” in the project may claim the credit. Any deduction allowable for costs taken into account in computing the credit is reduced by the amount of the credit attributable to such credit. This credit is a component of the general business credit and as such may be carried back three years and carried forward 15 years.

IV. Intangible Drilling Costs (IDC)

The major portion of the costs incurred in drilling an oil and gas well do not result in the acquisition of tangible property having a salvage value. These expenditures are classified as intangible drilling costs. The Code requires the Treasury to issue regulations to grant taxpayers the option of deducting as ordinary and necessary business expenses the IDC for oil, gas, or geothermal wells. Under Reg. § 1.612-4(a), only owners of operating interests may take advantage of this option if such owners actually bear such costs. When a taxpayer deducts such expenses on his or her return he or she is deemed to have made the election. This is a once in a lifetime election and is effective for all subsequent years. With respect to “prepaid IDC,” certain conditions must be met before deducting such payments if the drilling activity does not commence until a subsequent tax year. A taxpayer may generally deduct only the IDC applicable to the taxpayer’s working interest revenue share during the full pay out period; any excess must be treated as additional lease acquisition rent. Partnerships and special allocation provisions are often used to avoid this capitalization.

Oil and Gas Tax Practice Guide

Return Applications

I. Informational Return - Form 1099 MISC

A. Royalties & Net Profits Interest

1. Criteria:

Every person who receives royalties (or similar amounts, including amounts from net profits interest) aggregating \$10 or more during any calendar year should receive an information return.

2. Forms:

Form 1099-Misc, Statement for Recipients of Miscellaneous Income, is used to report the required information and the aggregate amount of payments. Royalty payments should be recorded in box number 2 marked "Royalties." Net profits interest are often reported in the Royalties box.

3. Federal Income Tax Return Reporting

a. Schedule E Reporting

Generally, all income reported on Forms 1099 MISC Box 2 with respect to non operating oil and gas interests held directly by individual taxpayers should be reported in Part I of Schedule E (Form 1040). (In cases where an Individual also holds a significant number of operating interest and actively conducts a trade or business in the oil and gas industry, there is some justification for reporting non operating interest income on Schedule C. See the discussion below for the treatment of operating interest income.)

b. Computation of Depletion

The recipient of income from oil and gas non operating interests should generally record a deduction for depletion computed under either the cost depletion method or the percentage depletion method. Note that only certain producers and only certain production quantities qualify for percentage depletion deductions. Also, percentage depletion is subject to several computed limitations. I.R.C. § 613A should be consulted to determine if the taxpayer is eligible for percentage depletion deductions. The computed depletion deduction should be reported on Line 20 of Schedule E.

c. Passive Income (Loss) Rules

Oil and gas royalties and net profits interests will generally constitute portfolio income unless the trade or business exception applies.

d. Self Employment Taxes

Generally, income or losses arising with respect to non operating interests are not considered for purposes of computing self employment taxes.

B. Operating Interests And Other Payments

1. Criteria:

Any Individual who holds an oil and gas operating interest and who receives, in a calendar year, \$600 or more from the sale of oil and gas reserves from a single payor with respect to that interest should receive a Form 1099 from each such payor. Also, Individuals who receive, in a calendar year, \$600 or more from payments of Delay Rentals, Lease Bonuses, Damages or Shut-Ins should receive a Form 1099 from each such payor.

2. Forms:

The required information is to be reported on Form 1099-MISC. The aggregate amount of payments to each recipient must be reported. The proper box on Form 1099 in which to record payments depends on the type of payment being made. Reporting of the oil and gas payments discussed in this section should be reported in box number 7 labeled "Nonemployee Compensation." However, Delay Rental payments may be recorded in box number 1 labeled "Rents."

3. Federal Income Tax Return Reporting

a. Schedule C & E Reporting

Generally, all income reported on Forms 1099 with respect to operating oil and gas interests held directly by individual taxpayers should be reported on Schedule C (Form 1040), with gross income and withheld expense amounts reported in the appropriate lines on the form.

The proper place to report receipts for Lease Bonus, Delay Rentals, Shut-Ins and/or Damages generally depends on the Individual's particular situation. In general terms, if the Individual actively conducts a trade or business in the oil and gas industry, these payments should be reported on Schedule C. Alternatively, Schedule E reporting would most likely be appropriate (except for Damages) in cases where the Individual is not an active participant in the oil and gas industry. Damages should be reported in the same manner that other non oil and gas income from the surface rights would

be reported (e.g., ordinary income, capital gain or non-taxable reduction of basis depending on the nature of the damage payment).

b. Computation of Depletion

The recipient of income from oil and gas operating interests generally should record a deduction for cost or percentage depletion. See the discussion under non operating interests for additional information. The computed amount should be reported on line 12, Part II of Schedule C.

c. Self Employment Taxes

Generally, income or loss reported with respect to an oil and gas operating interest directly held by an individual is considered self-employment income or loss and should be included in the computation of self employment taxes on Schedule SE (Form 1040). Taxpayers have argued against this presumption in the courts with limited results.

d. Passive Income (Loss) Rules

The passive income (loss) rules provide that income or loss arising from oil and gas operating interests held directly by individual taxpayers generally should not be treated as income or loss from passive activities.

C. Filing Dates:

Form 1099 copies to Individuals by January 31 of the following year.

Form 1096 and 1099 with the IRS by February 28 of the following year. State requirements vary.

II. Partnership K-1s

A. Background

The oil and gas industry is somewhat unique in that the large majority of oil and gas wells are drilled and operated in joint venture arrangements. Some of these joint ventures elect not to file partnership tax returns but others report income or losses for Federal income tax purposes as partnerships. Some of the partnerships are actual legal entities and some of the partnerships are "tax only" partnerships. "Tax only" partnerships are partnerships recognized for income tax purposes only and have no legal status as a separate entity. Hereinafter, legal and "tax only" partnerships will not be distinguished for purposes of this discussion. Various states now allow formation of limited liability companies which may qualify as a partnership for tax purposes.

B. Reporting of Partnership Income and Losses

Income or losses arising from oil and gas properties held by partnerships are recorded in partnership returns (Form 1065) filed with the IRS. Each partner in a partnership should receive from the partnership a schedule K-1 which reports his or her share of the total partnership income or losses. Each partner should report his or her share of the income or losses from the business of the partnership based on the information included on the schedule K-1.

1. Federal Income Tax Return Reporting

a. Schedule E Reporting

Royalty income is reported on page 1 of Schedule E. Other items are reported in the partnership's section of Sch. E, page 2. The K-1 reports the necessary information to allow each partner to compute his or her own allowable depletion. IDC's are passed through to allow each partner to make his or her own decision as to expensing options. Credit amounts are also passed through to be reported on each partner's return.

b. Passive Income (Loss) Rules

Royalty income constitutes portfolio income. Other oil and gas items will be deemed to be passive if derived from a limited partnership interest. General partners must meet material participation standards to obtain active status.

c. Self Employment Taxes

Limited partners will not incur self-employment income on operating interests.

III. Tax Credits

A. Nonconventional Fuels Credit (I.R.C. § 29)

There is not an IRS form to be used to compute the section 29 credit. For individuals, there is not a separate line on Form 1040 to report the credit. According to the form 1040 instructions, the amount of the credit and "FNS" should be entered on the dotted line next to Line 45. The amount should be combined with the amounts on Lines 41 through 44 to arrive at total credits entered on Line 45.

B. Enhanced Oil Recovery Credit

This credit is entered on Form 3800.

IV. Alternative Minimum Tax (AMT) Preferences

The Comprehensive National Energy Policy Act of 1992 repealed the minimum tax preferences for depletion and IDCs of independent oil and gas producers and royalty owners for taxable years beginning after 1992. The repeal of the IDC preference may not, however, result in the reduction of the amount of the taxpayer's alternative minimum taxable income by more than 40% of the amount that the taxpayer's alternative minimum taxable income would have been had the IDC preference not been repealed. Therefore, a computation of "excess IDC" and any resulting tax preference under prior law is required in many cases. AMTI will need to be computed both with the IDC preference and without the IDC preference to determine if the taxpayer can benefit from the relief of the preference.

Excess IDCs were the excess of the taxpayer's regular tax deduction for such costs over the amount that would have been allowable for the taxable year, if such costs had been capitalized and amortized over a period of 120 months from the month in which production from the well commenced or, if the taxpayer so elected, over the period that could be used to determine cost depletion.

Intangible costs in drilling a non productive well were not included as IDCs. The Committee Reports state that a well is non-productive if it is plugged and abandoned without having produced oil and gas in commercial quantities for any substantial period of time.

The AMT preference amount was defined as the amount by which "excess IDC" paid or incurred during the taxable year exceeded 65% of the taxpayer's net income from oil, gas, and geothermal properties for the taxable year.

The net income from oil, gas, and geothermal properties for the taxable year was the excess of the aggregate amount of gross income (as determined for percentage depletion) from such properties over the amount of any deductions allocable to such properties reduced by the "excess intangible drilling costs." The deductions attributable to properties with no gross income are not taken into account.

Under I.R.C. § 59(e), a taxpayer may make a "normative election" to deduct IDCs ratably over a 60-month period beginning with the month in which the IDC was paid or incurred. If the taxpayer makes an election under section 59(e), no preference amount results from IDCs subject to the election. The election may be made for any portion of the IDC expenditure. For example, a taxpayer who incurs \$100,000 of intangible drilling costs with respect to a single property may elect normative treatment for any dollar component of the expenditures. No other deduction is allowed for the item to the extent such an election applies. The election may be revoked only with the consent of the Secretary. In the case of a partnership or an S corporation, an election shall be made separately by any partner or shareholder with respect to such individual's allocable share of any expenditures.

